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**No. 343**

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23 May 1983

## CHINA REPORT ECONOMIC AFFAIRS

No. 343

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## NATIONAL POLICY AND ISSUES

### 'JINGJI YANJIU' ON SOCIALIST COMMODITIES

HK040750 Beijing JINGJI YANJIU in Chinese No 3, 20 Mar 83 pp 63-66

[Article by Li Guangyuan [2621 0342 6698]: "Some Ideas on the Characteristics of Commodities in the Socialist Economy"]

[Text] It is normally said that socialist commodities are characterized by their foundation in the socialist system of public ownership of the means of production. This is of course true. However, the statement can be put the other way around, for asking what the characteristics of socialist commodities are is essentially the same as asking what the differences are between commodities based in a socialist system of public ownership and commodities based in a system of private ownership. It is very important to realize that the answer is significant in indicating a starting point for a discussion of the characteristics of socialist commodities but there is as yet little development from this starting point. When discussing the characteristics of socialist commodities people often say that they do not include the labor force, ground or land, mineral resources and so on. A response such as this defines the sphere of socialist commodities but does not explain the characteristics of socialist commodities within this sphere. Furthermore the question as to whether or not the labor force is a commodity is not generally a difference between systems of private ownership and socialism but is rather a question of difference between capitalism and noncapitalism. People also often say that circulation and production of socialist commodities within the sphere of society is carried out in a planned way. This suggests an extremely important characteristic of the style of movement of socialist commodities but it does not explain by what intentional characteristic of socialist commodities such planning is decided.

So, how should we tackle and discuss the characteristics of socialist commodities? I feel that mainly we should examine the economic relations and material results and their relations in which all these characteristics are embodied and the differences between these and the relevant relations which embody the characteristics of commodities under private ownership systems.

Commodity relations in a system of private ownership within a capitalist society develop on a very wide and expansive level. Within such a society commodity relations occur among capitalists, between capitalists and workers, between capitalists and individual producers, between individual producers

and workers and so on. All of these relations have their traits, especially the commodity relations between the capitalist and the hired worker. However, all these relations within the system of private ownership share common traits, namely that the opposing parties within the commodity relations are private individuals with separate and opposing interests. Apart from this trait of both sides wanting to strike bargains under specific conditions, there are no interests common to both sides. Both sides merely have commodity relations with the other side for the sake of their own private interests and satisfying the other side's demands is only a means of achieving personal interests. Just as Marx said, "Both sides only look after themselves and the only forces binding them together in certain relations are their selfishness, their special interests and their private interest" (Marx, DAS KAPITAL Vol 1 p 199). "Everyone serves someone else and the aim is to serve yourself; everyone uses someone else as a means for their own benefit" (Marx: "Collected Works of Marx and Engels Critique of Political Economy," Vol 46, p 196).

Commodity relations in socialism are not like this, or at least are not entirely like this.

Socialist commodity relations occur between state-run enterprises, between collectively-run enterprises, between state-run enterprises and collectively-run enterprises, between the state and the worker, between the state and those involved in a collectively-run enterprises and so on. (Here we are not discussing individual workers within the socialist society.) While all these relations have their own characteristics, they also show common differences from the characteristics of commodities in a system of private ownership. Both opposing sides have their own special interests and common interests such as the socialist worker and the worker's integrated body. Thus when both sides join up and produce commodity relations not only are they concerned about their own special interests, they are also concerned about their common interests. The commodity relations which each produces with the other side are not merely to achieve one side's special interests, but are also for common interests and for fulfilling demands of the opposite side. For example, the aims of producing and selling commodities in one socialist enterprise are not merely to achieve the special interests of that enterprise but are mainly to fulfill society's demands and in the long run the aims are the welfare of the workers and all-round development. (Under certain conditions there are cases where there is minimal interest, no interest or even damage to the enterprise but in the case of vital or profitable commodities the enterprise must continue to produce and manage or else stop producing and managing. Of course normally what society needs is also of interest to the enterprise.) Commodity relations between enterprises involve mutual coordination and mutual support and as such are relations which promote the growth of common interests or benefits. Increases in the income of any enterprise and the subsequent increases in taxes and profits paid to the state do in the long run benefit other enterprises. Industrial and agricultural commodity exchange between the state and the peasants is not, on the state's side, merely for the sake of the state's income but also takes into consideration an overview of socialist construction and the peasants' interests, and on the peasant's side it is not merely for the sake of individual income, since increases in the state's interests also

include and imply increases in the peasant's interests. These situations illustrate that the relations of interests or benefit which are embodied in socialist commodities are not the same as those embodied in commodities in a system of private ownership. Some comrades say that this is putting moral relations which have nothing to do with commodity relations alongside commodity relations and that as far as commodity relations themselves are concerned, there are no differences between socialist commodities and commodities in a system of private ownership. I find it very difficult to agree with this criticism since what we are talking about here are objective changes which have taken place in the relations of material interests which commodities embody and the alterations in attitude in both parties of commodity relations which the above-mentioned changes have brought about. In other words, this sort of change involves changes in contradictions within commodities, thus the source of the contradiction between value and use value is no longer the contradiction between private labor and social labor, but is the contradiction between partially social labor and social labor and changes in the aims of commodity production. How can we say that this is not a change in the commodity relations themselves? After such changes as these have occurred how can one still believe that as far as commodity relations themselves are concerned there are no differences between socialist commodities and commodities within a system of private ownership?

If the above-mentioned characteristics of socialist commodities are tenable, what special regularities are there to be found in their movement? As a result of these special regularities, what new traits have the principles and methods on which people base their regulations of commodity production and circulation?

Examining the special regularities of the movement of socialist commodities demands as a premise the recognition of general regularities of commodity movement, namely the law of value. In the process of movement of socialist commodities the law of value still exists as it does in the movement of all commodities. It is still the social average required labor that decides value and it is still market demands which in the long run control commodity production and circulation. All commodities are produced for the market and must all be controlled by market demands. Socialist production aims are to fulfill society's demands. Socialist commodity production may change not only as a result of an enterprise's own changes in commodity production based on the market situation and on changes in market demands (hence adjustments by market demands), but in addition state guidance planning and state command planning will also decide what commodities and how much of each commodity to produce and hence in the long run commodity production is controlled and decided by the demands of society which manifest themselves as market demands. The reasons for this are firstly, when drawing up plans it is necessary to consider society's demands, or, rather, market demands. This is the most important basis for drawing up plans. Secondly, when plans are not in line with demands or when there are changes in demand that planning has not accounted for, excess commodities produced according to planning may result in overstocking while insufficient commodities produced according to planning will produce shortages in supplies and this kind of situation will finally bring about readjustments to planning according to demand. If no

readjustments are made then it is necessary to pay a corresponding price. Of course there is another aspect to this question, namely, that since production itself can attract new consumption, planned production can within certain spheres constrain demand. However, in the longrun and as far as commodities in general being produced for market demands are concerned, it is market demands which constrain commodity production and this is a general law for all commodity movement.

So what then are the special regularities of socialist commodity movement? The rules themselves cannot be seen, what one sees are manifestations. If we compare in terms of their manifestations the movement of socialist commodities and the movement of commodities in a system of private ownership, in particular a capitalist system, then we can see that there are differences in the manifestation of these two sorts of commodity movement and in fact many differences can be listed from many different angles. However perhaps the most important differences are as follows: Within the two types of commodity relations there are differences in by whom, on the basis of what principles and in what ways reactions to market demands are made.

Under commodity relations within a system of private ownership it is separate private individuals or groups whose interests are opposed to each other who, without joint consultation decide reactions to market demands on the basis of their own judgments. The principle on which each person bases his reaction is: Do what is in my interest: with great interest, act big, with small interest, act small; no interest, don't act. This method of reaction is for the individual independent and self-commanding, but for society it is decentralized, blind and unplanned. In terms of an individual commodity the balance between production and demand is being constantly built up and constantly destroyed. In terms of an overview of the whole of capitalist society, the contradiction between the capitalist's constant search for profit in addition to his limitless expansionist tendencies in production and the small buying power of the worker as a result of his or her oppression means that the balance between production and demand can only be temporarily reached by means of several years of circularly repetitive economic crises. Under conditions defined by commodity relations within a socialist system of public ownership it is the complex integration of the state, the region, the department, the enterprise and the individual which draws up the reaction to society's demands, manifested as market demands. Amongst these parts of the integrated whole it is the state which occupies the dominant and leading position, and the enterprise is the fundamental unit of production and management, while the region and department are both intermediate links in the chain. Each level or integrated part of the entire whole produces a reaction to market demands either alone or jointly. The principle on which such reactions is based is in terms of each aspect having its own special interests to do what is in one's own interest, with great interest act big, with small interest act small, no interest don't act. And this principle is applied within specific realms and with limits. However, this is neither the only nor the highest principle, for there is still the need equally to consider and mutually integrate the interests of the whole, one portion and one individual part. Furthermore, individual and partial interests must be subordinate to the interests of the whole and common and shared growth must come out of promotion of the interests



of each part. The very last principle is a general principle determined by the socialist system of public ownership to handle the various relations involved in material interests and thus in theoretical terms it is also applicable for handling socialist commodity relations. In terms of actual practice, the state often begins from this principle its work of readjusting the extent of the gap between price and value and adjusting the relations of interest in each separate section of the whole. For a period of time the state used to buy agricultural products at a price much lower than the value so that the peasants could provide large amounts of funds for the state's industrialization program. After a while purchasing prices of agricultural products were raised considerably and the peasants' livelihood improved and thus agricultural production was boosted. At the same time the state provides subsidies in order to guarantee the stability of the city dwellers' livelihood and to ensure that the selling prices of grain, oils, meat, eggs and so on would basically not move. Such action as this, while based on the financial capacity of the state and other factors, sprang from a consideration corresponds with the above-mentioned characteristics of socialist commodities and indeed one could say that that it is defined by these characteristics. One can see that to work in this way is often not to work in accordance with the principle of equal value but one can definitely not say that it transgresses the law of value. For, only by recognizing the existence of value determined by socially required labor can one consciously make use of the gap between price and value to regulate the movement of commodities and the relations of material interest among the people. The real question or problem lies in asking what the objective basis and restrictions are in adopting this method and it is only the law of value which may or may not provide this basis and these restrictions. It should be recognized that the law of value has provided certain objective bases and restrictions for this way of working, but relying solely on the law of value cannot provide sufficient objective basis and restrictions for adopting such a method because the law of value only tells one what kind of fresh distribution of material interests this kind of method may provide and what the direct results or influences of such distribution are. What it cannot say is what the most viable and the best kind of distribution of material interests is for the whole under specific social, economic and political conditions. Hence when the state uses this method it not only considers the existence of the law of value it also considers fundamental economic laws of socialism and laws of proportional development of the national economy before it makes concrete and puts into actual use the above-mentioned socialist principles of interest.

Within a socialist system, the above-mentioned new characteristics of the principles on which people base their adjustments and regulations of commodity production and circulation reflect the special regularity of the movement of socialist commodities which is different from that of commodities in a system of private ownership. The question of how to summarize and express these special regularities requires further research.

The special regularity of the movement of socialist commodities is also reflected in the way in which people react to market demands. Planning is the basic characteristic of the reaction to socialist market demands. The reasons for this are that (1) the enormous integrated whole made up of the state, the

region, the enterprise, the department and the individual, based on the socialist system of public ownership, can only act effectively by means of unified planning; (2) the above-mentioned socialist principle of material interests can only be realized by means of planned activity. So how can one achieve a planned reaction? How can one ensure that the reaction produced is the best in terms of the integrated whole? These questions are in fact the question of how to effectively give expression to the different roles of each level of the integrated whole in producing a reaction to market demands and how to accurately integrate these different roles. Since the position, conditions and strength of all of these different layers of the integrated whole are different in terms of producing a reaction to market demands, they all have their advantages and their limitations. In general though, the higher up they are the easier it is for them to appreciate and understand the long-term demands of the whole, the greater the concern for the long-term and overall interests, the better the conditions for solving questions of a long-term or overall nature, and hence the quicker, the more effectively and the more accurately they may produce reactions to overall and long-term demands. The lower down they are the easier it is to promptly understand in a concrete way the realities of and short-term changes in market demands, the more concern there is for partial and short-term interests, the more they are able to make quick, effective and accurate reactions to quickly changing and short-term market demands. In order for this reaction to socialist market demands to be the best reaction which the socialist planned economy as an integrated whole can make, every component part has to exploit its own advantages and these advantages have to be integrated together, while individual limitations are avoided. Thus the more demands are related to long-term, overall things relating to the national economy and the people's livelihood, the more suitable it is for the state to produce the direct reaction, drawing up command plans and deciding what and how much to produce. The more the demands are related to regional things in which time is important and changes occur quickly, (such as the demand for small commodities with a large variety but low production value), the more suitable it is for the enterprise to produce the direct reaction and thus the enterprise, faced with the market situation, decides on its own what and how much to produce, in other words it is regulated by the market. As for demands which fall in between the above two sorts of situations, these are best reacted to jointly by the state and the enterprise, with the state issuing guidance plans and making use of various economic means to ensure that the reaction that the enterprise produces itself to the market demand corresponds on the whole to the state's wishes. In addition, regions, departments and business organizations can also participate in reacting to market demands, giving expression to their interests within suitable limits. For example, a region can, on the basis of its needs and within certain limits, issue command or guidance plans. Business organizations can make use of their advantage of easily being able to grasp the overall business situation and make predictions about the market demand and supply situation in relation to their own commodities, thereby guiding enterprise production and management. The premise for suitable integration of the above-mentioned concrete kinds of reaction to market demands is the accurate delineation and differentiation of the three kinds of planning management, namely command planning, guidance planning and market adjustments and thus it represents an important question to be solved in establishing and

improving the system of planning management in the national economy and improving planning work in general. The above-mentioned theoretically derived standards for carrying out this kind of delineation involve delineation in accordance with the nature of all kinds of different demands (whether they are overall or regional, long-term or short-term and so on). In real life this standard is often manifested as delineation in accordance with the importance of the enterprise and the commodity. However, sometimes the same enterprise may produce several commodities of varying importance and the same commodity may have different demands on planning as a result of the differing nature of the demands that it fulfills. For example, some coal is distributed in a unified way by the state while some may be freely produced and sold by a region. Hence, in terms of the actuality of the question the differing nature of various demands represent the objective basis for deciding what concrete type of reaction should be adopted.

In conclusion, in view of these special characteristics of commodity relations in socialism, the principles and methods for producing a reaction to market demands all possess new characteristics. Thus socialist commodity production and demand is able to constantly achieve a planned balance which is of benefit to the worker and it is exactly this which represents the fundamental difference and superiority of socialist commodity movement over the capitalist style of commodity movement in particular.

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## NATIONAL POLICY AND ISSUES

### 'JINGJI YANJIU' ON INDIVIDUAL, COLLECTIVE INTERESTS

HK040749 Beijing JINGJI YANJIU in Chinese No 3, 20 Mar 83 pp 67-68, 78

[Article by Hao Guoyin [6787 0948 0603]: "Under Socialist Conditions, Are Individual Interests the Basis for State and Collective Interests?"—passages within slantlines denote underscoring]

[Text] There is today a commonly held belief that individual interests are the basis of common interests (including state interests and collective interests) (Xue Yongying, "Socialism and Material Interests" Guizhou People's Press 1980, p 65), and in addition, that fussing about and seeking individual interests or benefits represents the foundation of socialism. I would like to take a look at this question.

#### 1. In Terms of the Socialist System of Ownership of the Means of Production, Individual Interests Are Not the basis of State and Collective Interests

Engels once said "the economic relations of every society manifest themselves primarily as interests" (Engels: "Selected Works of Marx and Engels: On the Question of Housing," Vol 2, p 537). So-called material interests are simply economic relations manifested in material means (including means of production and means of subsistence) and their nature and character are determined by the nature of the system of ownership of the means of production. The system of public ownership of the means of production primarily produces common interests. The socialist system of public ownership of the means of production primarily produces collective interests of the socialist direct production unit. These kinds of collective interests are state interests based on the collective and they are also the premise for the realization of individual interests. This kind of socialist material interest system which is based in the collective interests of the production unit represents the objective basis for the necessary respect and expansion of enterprise and production unit autonomy within the restructuring of the socialist economic system.

Socialist material interests are based on the system of public ownership and spring from the collective labor of the workers. They exclude any material interests linked to exploitation and slavery and they represent the most advanced and rational material interests in human history. In terms of the socialist system of ownership of the means of production, individual interests are not the basis for state interests or collective interests. The belief



which states that individual interests form the basis of socialist state and collective interests transgresses the principle of historical materialism defined by the system of ownership of the means of production.

## 2. In Terms of the Characteristics of the Principle of Socialist Material Interests, It Is Not Possible to Make Individual Interests the Basis for State and Collective Interests

The centralized relations of socialist material interests are embodied in the relations between the state (both central and regional), the collective and the individual. Under socialist conditions the interests of the state, the collective and the individual are in essence the same. The establishment of the socialist system of public ownership ensured that the workers became the masters of the means of production and of society, thereby wiping out the opposition between individual interests and the interests of the state and the collective that exist in a capitalist society. This then is the fundamental characteristic of socialist material interests and herein also lies the superiority of socialism.

Within the process of socialist economic activities, because of constant interests that workers material interests achieve on a basis of socialist production development, the fundamental and vital connection that exists between production development and the material interests of the workers mean that the worker, on the basis of material interests, increases his or her concern for development in the fruits of his or her labors and in collective production. The size of the individual worker's and the collective's material interests is dependent on the kind of labor and management results that they provide society with. Contradictions between them can be resolved within socialist production relations. In view of these characteristics of the socialist principle of material interests, one cannot say that individual interests are the basis for state and collective interests under socialist conditions.

## 3. The Basis for the Classic Author's Discussion Refuting the Idea that "Individual Interests" Are the Basis for State and Collective Interests

Many comrades who believe that individual interests represent the basis for state and collective interests take as their main theoretical basis what Marx and Engels said about "'common interests' during any time throughout history being always created by 'private' individuals." I feel that this is worth some discussion. In order to correctly understand the intention behind what Marx and Engels wrote we will take a closer look at what was said.

"The most outstanding thing about those communist theoreticians who have the time to carry out historical research is that it is only they who discover that during any period of history 'common interests' are all created by 'private' individuals. They know that this kind of opposition is merely superficial since one aspect of this kind of opposition--the so-called common aspect--is always constantly being produced by another aspect--namely the aspect of private interests, and is not in any way historically independent or independently strong nor is it carrying out any resistance to private

"interests. Thus this kind of opposition, in reality and in practice always produces destruction and after such destruction, is produced again. Thus what we are looking at here is not Hegel's 'unity of negation' antithesis but the destruction of the materially determined former style of existence of an individual, /and as the destruction of this style of existence occurs, this kind of opposition and its unity are together destroyed at the same time"/ (Marx and Engels: "Collected Works of Marx and Engels: German Ideology," Vol 3, pp 275-276). What Marx and Engels are talking about here are "the common interests created by private individuals" within a class society based on a system of private ownership. Marx and Engels also said that "under conditions of private ownership, because every individual is only aiming for special interests for themselves which for them are not in keeping with their common interests," so far as the individual is concerned, these common interests are "alien" and "unreal" and it is only individual interests which are real and which are the foundations on which the common class interests have merged.

However, we cannot in any way take over a set of material interests from a system of private ownership into our socialist society with its system of public ownership.

#### 4. Individual Interests Are the Realization of State and Collective Interests

Within the actual economic life of socialism, state and collective interests are definitely not constructed out of individual interests. The system of material interests is not a simply arithmetical system: The entirety equals the sum of the component parts. The socialist system of public ownership of the means of production cannot by any means primarily produce benefits for private individuals; what is primarily produced are the collective interests of the production unit. Practice illustrates that within real socialist economic and political life it is state and collective interests which are produced primarily and it is only later that the individual interests of the workers appear. The premise for the liberation of the individual members of the proletariat was the liberation of the entire class and the development of the state and collective economy is the foundation for improvements and increases in the livelihood of the individual workers. The individual interests of the workers are the realization of the interests of the state and the collective. The socialist system of public ownership of the means of production is not only manifest in the workers' common possession, distribution and application of the means of production, but also at the same time it is manifest in the common possession, control and enjoyment of the commodities which are produced. The realization of the socialist system of the public ownership of the means of production is the worker's common possession and enjoyment of the material means (and the material benefits that they bring with them) produced within the production system of the socialist system of public ownership of the means of production. If the worker only has possession, control and the right to use the means of production, but does not have control and the rights to enjoy labor commodities and material benefits, then the system of public ownership of the means of production means nothing and in real terms it is not a socialist system of public ownership.

In conclusion, socialist state and collective material interests include and embody the individual interests of the worker and furthermore they must in the long run transform and be realized as the individual interests of the worker, otherwise these state and collective material interests will become empty, abstract and meaningless. To deny the individual interests of the worker is to deny the interests of the state and the collective. State and collective interests which depart from the individual interests of the worker are not what the worker wants nor are they state and collective interests which the worker may recognize, instead they may only become the private interests of a small number of individuals. Between 10 and 20 years ago the dislocations which occurred in the national economy, the slowing down of economic development and inability for the people's livelihood to improve were all mainly caused by "leftist" mistakes in our work and a lack of good integration of state, collective and individual interests. In particular there was no timely transformation of state and collective interests into real individual interests for the workers and this was not because individual interests had not been made the basis for state and collective interests. Today, if we take things to the extreme and make individual interests the basis for state and collective interests, it will not correspond with fundamental Marxist theories nor can it effectively solve some of the problems that exist in economic life today; indeed it may produce even more problems and contradictions, and may even put socialist economic and political life onto the wrong path.

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## ECONOMIC MANAGEMENT

### ATTRACTING JOINT VENTURE CAPITAL URGED

Shanghai SHIJIE JINGJI DAOBAO in Chinese 28 Mar 83 p 6

/Article by Hu Mingli /5170 2492 3810/: "Proper Handling of Existing Joint Ventures is the Key to their Development"

/Text/ Joint ventures are limited companies that assume sole responsibility for their own profits or losses. In a joint venture agreement, we usually draw up conditions stipulating that the joint enterprise is a legal entity and that the board of directors is the organ of the joint enterprise with the highest authority. This is to say that, according to the provisions of the agreement, the joint enterprise has its own independent authority in business management under the prerequisite that it abides by the laws and decrees of our nation in regard to this independent authority. We must abide by the agreement and respect it.

However, for a long time we have been accustomed to using administrative measures in managing the economy and this creates various problems. If the conditions of agreements cannot be implemented and the independent authority of enterprises cannot be guaranteed, how can we attract more foreign capital to take part in joint venture enterprises?

Since we recognize that joint enterprises are legal entities with their own sole independent authority for their profits and losses, except for exercising supervision as to whether they are abiding by the laws of our nation, we can realize our management aims in respect to them only through the directors that we assign to the joint enterprise. This method is the one in which foreign joint venture companies are familiar with. For this reason, it will readily be accepted by them.

The directors that we appoint to joint enterprises assume their responsibilities as directors and representatives of our state organs. When they express their agreement on the board of directors, in the view of the foreign participant in the joint venture, this is equivalent to expression of agreement by the state organ that appointed them. Thus, it is difficult for them to understand the situation when a decision that has been made by the board of directors and that does not violate our laws and decrees is vetoed by another state organ. If we act in this way, foreign investors will be at a loss as to what to do.

In order that the directors that we appoint can fulfill their functions of implementing the principles and policies of the state and of realizing our management goals for joint venture enterprises, we must select persons who have a fairly high level of policy and cultural understanding and who have specialized knowledge. The responsible departments must strengthen their leadership in regard to them. At the same time, they must provide them with authority so that they can truly fulfill their functions.

Running joint-venture enterprises is a completely new type of work. Because we were inexperienced, it was unavoidable that we ran into some trouble in the past in our dealings. If we conscientiously summarize these experiences and lessons, we should certainly be able to do a continually better job of utilizing foreign capital. As to the joint capital agreements that have already been concluded, even if we have a clear understanding of the areas in which we have run into difficulty, we should continue to make a conscientious effort to carry out their provisions and clearly abide by them.

Our general and specific policies in regard to opening up to the outside and to utilizing foreign capital to manage joint venture enterprises are clear. If we are resolute in implementing these policies, manage affairs in accordance with the law, and do a skillful job of solving problems that arise so that the joint enterprise can carry on its business in a normal way and obtain a suitable profit, then foreign capital will inevitably "come from near and far." In summary, if we do a good job of handling existing joint ventures, we will be able to attract even more capital for joint capital enterprises.

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## ECONOMIC MANAGEMENT

### SELF-MANAGEMENT RIGHTS, TAX REVENUES OF JOINT VENTURES DISCUSSED

Shanghai SHIJIE JINGJI DAobao in Chinese 28 Mar 83 p 6

/Article: "Self-Management Rights and Tax Revenues of Joint Ventures;  
Address by Li Lanqing at the China Coal Mine Investment and Market Symposium"

/Text/ In a recent address at the China Coal Mine Investment and Market Symposium, Li Lanqing /2621 1526 3237/, director of the Foreign Capital Management Bureau of the Ministry of Foreign Economic Relations and Trade, pointed out: Joint capital and cooperative ventures between China and foreign countries enjoy the following rights subject to state planning and leadership and the observance of the relevant laws, regulations and stipulated conditions of the Chinese government.

(1) To decide the plan for developing the enterprise, production management plans and labor wage plans (which are to be reported to the responsible department and the local labor department for the record); (2) to purchase necessary raw materials, fuel, equipment, parts and systems directly from domestic and international markets and to sell their products on the domestic and foreign markets on the basis of the stipulations of jointly signed agreements; (3) to conclude various types of economic agreements with domestic and foreign companies and enterprises and to realize their own relevant plans through implementation of economic agreements; (4) to raise Renminbi and foreign exchange funds from domestic and foreign financial institutions for use in production management activities. They can also establish Renminbi and foreign currency accounts in the Bank of China or in other banks with which agreement has been made so that they can freely deposit and withdraw and make free use of their funds; (5) to establish the financial management and other management and administration systems of the enterprise; to determine the plan of distribution of the profits of the enterprise and the budget and balance sheets for financial revenues and expenditures; (6) to hire and discharge workers and staff and to use wage standards, forms of wages, reward and subsidy systems and rewards and punishments of staff and workers suited to the enterprise in question; and (7) in accordance with the provisions of the agreement and the regulations, to take the measures required for carrying out innovation and reform of production technology, to increase the varieties and types of products and to increase the volume and quality of production. The accumulated funds of the enterprise can also be used to acquire fixed assets and to expand the scale of production and business.

Li Lanqing said that our nation is a socialist nation in which a planned economy is the fundamental element and in which market regulation is a supplementary element and that all major economic activities are carried out on the basis of planned arrangements. For this reason, after a board of directors has discussed and decided on the major plans for capital construction, supply, production and sales of a joint capital enterprise, which is an organizational part of the overall economic structure of the nation, they should also bring them into line with the state plan through the responsible departments and carry on their economic activities under the guidance of the unified state plan. Not only is there no contradiction between falling in line with the state plan and assuring the independent authority of joint enterprises but moreover this is beneficial to even better achieve the independent authority of joint enterprises.

In regard to the problem of tax revenues, Li Lanqing said that there are two principal types of tax revenues for ordinary joint enterprises, one being the uniform industrial and commercial tax and the other being the business income tax. The tax rate on joint enterprises in our nation is not only lower than that in developed countries but is also lower than that in a number of developing countries. It is also favorable by comparison to that on domestic state-managed enterprises and collective enterprises. Joint enterprises can also enjoy the following preferential treatment in the sphere of tax revenues.

First, foreign joint ventures, on the basis of the agreed stipulations to invest and import and to operate enterprises and to purchase equipment and materials from abroad with registered capital cash, can apply in compliance with the relevant domestic stipulations for reduction of import duties and of the uniform industrial and commercial tax. However, when reselling on the domestic market, they must pay additional custom duty and uniform industrial and commercial tax for which reduction had been made. Second, they can be exempted from custom duties and the uniform industrial and commercial tax in order to manufacture products for sale abroad and to import raw materials, supplementary materials, parts, complete systems and packaging materials. However, secondary products that are produced in the course of processing and those portions that cannot be exported for various reasons and that are sold domestically are subject to taxation according to regulations. Goods with low exchange rates that have been produced by joint enterprises and that have been approved for export by the state can be subject to reduction of the uniform industrial and commercial tax of the production link by submitting applications to the Ministry of Finance in accordance with the relevant stipulations of the Chinese government. In addition, in order to avoid duplication of taxes, we are willing to discuss and conclude agreements on elimination of double taxation with a number of countries with which we have large-scale economic relations. We are now engaging in discussions with concerned countries on this topic.

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CSO: 4006/419

## ECONOMIC MANAGEMENT

### SUCCESS ACHIEVED IN REFORM OF INDUSTRIAL MANAGEMENT SYSTEM

Shanghai SHIJIE JINGJI DAOBAO in Chinese 28 Mar 83 p 8

/Article: "Reform of the Industrial Management System Achieves Important Success"/

/Text/ Yuan Baohua /5913 1405 5478/, deputy director of the State Economic Commission, pointed out the following at the All-China Industrial Communications Work Conference on 21 March. At present, the work of reorganizing enterprises, readjustment and reorganization, promoting technological progress and enlivening production and circulation has become prominently involved with problems of the economic system and we have reached a point at which it will be difficult to advance without making reforms.

Such Forms as "Piece Rate Wages," "Floating Wages," "Floating Promotion" and "Calculation of Rewards by Percentage" Have Already Appeared in the Enterprises' Distribution System

Yuan Lanhua said that, since the Third Plenary Session, bold investigations have been carried out of reform of industrial management systems in a number of regions, departments and enterprises, with important results having been obtained. In order to resolve the distribution relationships between the state and enterprises, 456 enterprises throughout the nation have run pilot projects on substituting taxes for profits. Such methods have been developed at large key enterprises as turning over profits to higher authorities and progressively increasing responsibility such as implemented at the Capital Iron and Steel Company. The method whereby enterprises are responsible for profits and losses and do not have to make up for excessive losses have appeared in enterprises suffering losses or enjoying very small profits, and small enterprises have implemented collective contracting methods. In respect to distribution relationships within enterprises, such various forms of distribution have appeared as "piece rate wages," "floating wages," "floating promotions" and "calculation of rewards by percentage." These have amounted to a breakthrough in the existing management system and have made it possible for enterprises to resolve the difficulty of insufficient production assignments that has arisen as the result of the readjustment of the national economy, to make arrangements for employment and to repay the outstanding accounts in production and everyday operations that have resulted from the long-term imbalance in proportions. These were very difficult things for an enterprise to do under the centralized revenue and expenditure system of the past.



However, we must realize that the reforms that have been instituted are minor changes and reforms of a trial nature and that there have not been any changes in the conditions of enterprises having great responsibility, little authority, excessive meddling and heavy burdens. The independent authority which enterprises should have has for the most part not been achieved, the socialist initiative that is held in reservoir among enterprises and their staffs and workers has not been fully brought into play and people's hands are still tied to a serious extent by a number of long-standing, outmoded old conventions and old stereotypes.

Yuan pointed out that if we are to institute reform we must actively investigate and create socialist enterprise management systems that are suited to the conditions of our nation. In regard to the enterprises themselves, we must first acknowledge the interests of the enterprises, accord enterprises appropriate autonomy and not bind their hands and feet so that they will have vitality and motive power. Second, we must apply pressure on enterprises so that they can only make profits through arduous effort. Otherwise, it would not be advantageous in encouraging their advancement and would also result in a failure to foster genuine entrepreneurs. Reform of the industrial management system must abide by the following principles. First, the reforms must be advantageous to expansion of production, technological progress, raising the efficiency of the economy as a whole and assuring increase in state income. It must be advantageous in overcoming the egalitarianism of the view that it doesn't make any difference whether you do a good job or a bad job and in arousing the socialist enthusiasm of enterprises and their workers and staffs. It must be advantageous in making it possible for an enterprise to respond sensitively to changes in market demands under the guidance of the planned economy and to enterprises taking the initiative in readjusting production and improving management. Second, reforms must adhere to the integration of responsibility, authority and profits, with the state getting the larger part, the enterprise getting the medium part and the individual getting the smaller part. Before the price system as a whole has been reformed, we must proceed from the actual conditions of an enterprise. We must implement economic responsibility systems of different types. Third, they must gradually improve the livelihoods of staff and workers on the basis of expansion of production and increased income. However, the extent of increases in wages and bonuses cannot be higher than the ratios of increase in labor productivity and increase in profit and the degree of increase in the taxes on profit paid to the higher authorities per person and the wage amount in unit costs cannot be raised. Fourth, the reforms must be done through comprehensive planning and overall arrangements. In all relevant aspects, each sector must act in synchronization and proceed uniformly. Fifth, in carrying out reforms, we must uphold the principle of a planned economy as the principal element and market regulation as a supplementary element, with large matters being managed thoroughly and well and with restrictions being relaxed for small matters. At the same time that we are enlivening the economy, attention must be directed to strengthening the management supervision through administrative measures and legal measures. Attention must also be given to protecting the interests of consumers.

**The Circumstances of Industrial Enterprises Differ in Many Ways and the Modes of Reform Must Be Varied and Diverse**

Yuan Lanhua pointed out emphatically that putting everything to the test is a positive policy for achieving success in reform. He said that industries have their own characteristics and that their circumstances are fairly complex. First, the accumulations that industries provide account for about 80 percent of the financial income of the state and they play a decisive role. In making reforms, we must guarantee that state financial income will be increased and that it will not be decreased. Next, state-run enterprises are the principal form of industry and reforms of the methods of business management of enterprises must uphold the principle of having a planned economy as the principal element. Further, a high degree of socialization of industrial production involves cross-flow processes of many working procedures and requires tight organization, extensive cooperation and coordination and rigorous statistics, business accounting and supervision. The circumstances of industrial enterprises are highly diverse. The forms of large key enterprises and ordinary medium- and small-sized enterprises, of enterprises with high profits and or enterprises with very low profits or losses, or processing enterprises and of excavation industries are varied and diverse. Thus, stress must be put on running pilot projects. We will have to continually study new situations and solve new problems in our investigations and advance in the course of summarizing new experiences.

10019

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## FINANCE AND BANKING

### VIEWS ON PAYING TAXES INSTEAD OF PROFITS TO STATE PUBLISHED

Beijing RENMIN RIBAO in Chinese 19 Mar 83 p 2

[Article: "Put Pressure on Enterprises and Vitalize Them--A Summary of the Forum of Personnel From Economic Circles on the Issue of Paying Taxes Instead of Profits to the State Sponsored by the RENMIN RIBAO Editorial Department in Shanghai"]

[Text] Let Enterprises Feel the Pressure of "Law"

Wei Yongtao [7614 3057 3447] and He Jigang [0149 1323 0474], chief and tax collector of the fifth section of the first sub-bureau of the Shanghai Financial Bureau: Enterprises' taxation and profit delivery to the state are two concepts having different natures. Paying taxes is the enterprises' legal responsibility to the state. In other words, taxation should be implemented in all enterprises in the form of state law, and state law must be strictly implemented and abided by. In the past enterprises delivered profits to the state which did not reflect the character of the law. Therefore, there was great flexibility in delivering more or less profits than they should or delivering them on time or behind schedule. After replacing profit delivery with taxation, enterprises must pay overdue fines if they are in arrears with their payment. Take income taxes for example. Enterprises should pay a .5 percent fine for each day overdue. Otherwise, financial and tax departments may file suits against them according to law. Because of its legal function, taxation will put pressure on enterprises and force them to improve management and tap potential in production.

Lu Yuanting [0712 0955 0080] and Bao Shichan [7637 0013 0278], manager and general accountant of the Shanghai Light Industrial Machinery Company: Substituting profit delivery with taxation have basically changed previous system of unified income and expenditure and eating out of the "same big pot" and may encourage enterprises to improve management and become an economic entity. Our company has carried out the experimental work of replacing profit delivery with taxation in selected units since 1980. As a result, our enterprises feel that their burdens are heavier. No matter how great their difficult is, enterprises must try in a thousand and one ways to improve management, to strive to tap potential, to produce readily marketable products in order to ensure that taxes are paid on time--because this is the law of the state. We may say that the substitution of taxation for profit delivery

has put strong pressure on enterprises. This pressure is good because it can encourage leading cadres at all levels to pay attention to management and economic results. The broad masses of staff and workers will be enthusiastic about increasing production and reducing expenditures because they will benefit accordingly after tax payment. During the 3 years since we carried out the experimental work, taxes paid by our company have increased on an average of 6.2 percent every year, ensuring a steady increase in the state's revenue and, at the same time, increasing the profits retained by enterprises after tax payment.

#### The Important Thing Is To Vitalize Enterprises

Pan Guanying [3382 0385 3467], manager of the Shanghai Extruder Plant: Our plant is one of the 42 plants under the administration of the Shanghai Light Industrial Machinery Company which has been considered as an accounting unit since the substitution of taxation for profit delivery was implemented in 1980. Compared with the former practice of unified income and expenditure, taxation can obviously give vitality to enterprises. But such vitality is mainly evinced at the company level, and plants, as the units where productive forces are most active, still cannot give full play to their potential because they do not gain much profit.

Substitution of taxation for profit delivery to the state should be directly enacted in plants so that they can have more profits after they pay their taxes to the state. This is the only way to facilitate the development and improvement of plants. Of course, companies directly linked to trades and industries are still necessary. However, they retain too much profit for themselves and leave too little for the plants. For example, in 1982, 65.6 percent of our plant's profits were delivered to the state. 24.4 percent were handed over to the company and only 10.0 percent were retained by our plant. This is obviously detrimental to arousing the enthusiasm of enterprises and staff and workers.

Yan Guowei [0917 0948 0251], manager of the Shanghai Printing Machinery No 1 Plant: Considering companies as accounting units in taxation is essentially a change from the practice of eating out of the "same big pot" to the practice of eating out of the "same medium pot." The accounting system cannot properly integrate responsibility, rights and interests. In other words, companies have rights and interests but actually assume very little responsibility while plants take on heavy responsibility and enjoy very few rights and interests.

After replacing profit delivery with taxation, plants should be considered as accounting units. In other words, plants should pay taxes directly to the state and hand a portion of profits retained after taxes over to their companies; (the proportion of the profits handed to the companies should be appropriate based on the principle of not obstructing the enthusiasm of enterprises; the portion handed to companies should be used as the companies' public accumulation funds to help regulate and expand production funds and other expenses of all plants attached to them). Most of the profits after taxes should be retained by plants. This is the only way which is conducive to further developing the production of plants and arousing the enthusiasm of



the staff and workers. Our plant is supposed to have more potential that can be tapped, but we do not have motivation to tap potential under the current system. Therefore, when carrying out the practice of replacing profit delivery with taxation, we must consider how to do a better job in tapping enterprises' potential in production because it is a major issue which needs to be solved in enacting an all-round substitution of taxation for profit delivery to the state.

Shi Zhongwen [2457 0112 2429], deputy manager of the Shanghai Paper Machinery Plant: The most important factor affecting the quality of enterprises' management lies in whether enterprises have vitality and motivation; namely, whether they have decision-making power and whether they are independent in production and management. Eating out of the "same big pot" is, of course, out of the question. Eating out of the "same medium pot" is no good either. The current system of considering companies as accounting units should be changed.

Our plant and the Pengpu [1756 3184] Machinery Plant were originally one plant which was divided into two plants of the same scale later. In the past 3 years, the Pengpu Machinery Plant has enacted the substitution of taxation for profit delivery to the state. Being a direct accounting unit in taxation has put pressure on the plant, the pressure has become motivation and the motivation has enabled the plant to give full play to its subjective activity, readjust its products in accordance with markets' needs in a timely manner and steadily develop its production under the situation of insufficient production tasks. As a result, big profits for the state, medium profits for enterprises and small profits for staff and workers have materialized. Because our plant is not an accounting unit in taxation, and the main part of our profits retained after taxes have been handed over to our company, our plant ends up being a unit receiving subsidies from the company under the situation of normal operation. This will inevitably dampen the enthusiasm of enterprises. All staff and workers are talking about this now. They strongly suggest that taxation and accounting should be implemented in plants.

Wei Yongtao: Speaking for comrades of tax departments, levying taxes directly on plants will substantially increase our work load comparing with levying taxes on companies; but, in order to further arouse the enthusiasm of enterprises, I think, taxes should be levied on plants instead of companies.

#### "Do Not Keep the Cake in Display Windows"

Dong Guochan [5516 0948 1292], chief of the finance section of the Pengpu Machinery Plant: When the substitution of taxation for profit delivery was implemented on a trial basis in 1980 and 1981, the machinery industry happened to be undergoing readjustment, and our plant suffered a serious shortage of production tasks, confronting the situation of making bricks without straw. The taxation put extremely great pressure on the whole plant. How could we pay taxes without sufficient production tasks? If something went wrong, we might not have been able to pay staff and workers' wages and bonuses. But, it was this pressure that forced all staff and workers of our plant to try in a thousand and one ways to open up avenues for production and change

production lines in a timely manner. For example, our plant produced rollers for steel plants, televisions housing matrices for radio factories, rebuilt chairs for theaters and repaired machine tools for other fraternal units. As a result of the determined efforts and energetic work of our cadres and workers, our plant's profit level slightly rose instead of declining. During the 2 years, we paid all kinds of taxes to the state according to the stipulations. Beyond that, we also utilized the production development fund which came from the profits retained by the enterprise after taxes to purchase a number of equipment and utilized the welfare fund to build houses and bathrooms for our staff and workers. We have really drawn benefits from the substitution of taxation for profit delivery in enterprises.

However, the enthusiasm of our staff and workers has declined since 1982. Why? Because although our plant has some funds for our own use, the right of use is incomplete, and especially there are too many restrictions on the right of issuing bonuses. According to the stipulations, the amount of bonuses to staff and workers in experimental units should not exceed 2 to 3 month pay. In 1981, all staff and workers of the Pengpu Machinery Plant worked hard in a down-to-earth manner and earned 632,000 yuan of bonuses which averaged 172.5 yuan per persons. But only 140 yuan were actually issued to each person and the rest had to be deposited in banks. The staff and workers said: "These are cakes in display windows which can be looked at but not eaten."

Lu Yuanting: This problem is even more typical in the Shanghai Light Industrial Machinery Company. In 1981 our company had 3,935,000 yuan in bonus funds, each person could have an average of 292.2 yuan, but only 152 yuan was issued. Because the amount of bonuses is linked to the wage level and not the actual management level of enterprises, to a certain degree whether the staff and workers work hard or not and whether the enterprises' management level is high or low makes very little difference to the immediate interests of the staff and workers. If this continues, enthusiasm for production is bound to be dampened.

By taking the "cakes out of the display windows" we do not mean to divide up and use the money by giving everybody a piece regardless of their work performance. We mean to allow enterprises to properly utilize the money. For example, it can be used to practice the floating wage system in plants or as duty and responsibility allowances. By so doing, we can do a better job in implementing the principle of to each according to his work and further arouse the enthusiasm of the staff and workers.

Xia Zhenfan [1115 2182 5672] of the enterprise administration department of the Shanghai Municipal Economic Commission: After the substitution of taxation for profit delivery, we should also carry out a series of synchronous reforms. For example, enterprises are retaining a certain amount of profits after taxes as their production development fund and they have the right to use it. Due to overlapping organs which hold each other back, however, enterprises have to face numerous difficulties in using such funds. In order to buy new equipment, they sometimes have to ask dozens of units for instructions, affix over 40 stamps and send two buses to pick up leading cadres at

higher and lower levels of investigation units to consult with them on the issue. If any of them disapproves, the project will not be carried out. As a result, money retained for enterprises becomes "stagnant money" which cannot yield beneficial results. The voice of experimental units is quite loud. They demand that enterprises be given real autonomy to further vitalize them.

#### Pay Great Attention to the Protection of the Source of Taxes

Zhu Zhanliang [2612 1455 5328], director of an office under the Shanghai Light Industrial Bureau: The objective of the substitution of taxation for profit delivery is to arouse the enthusiasm of enterprises and guarantee the revenue of the state. "If its source is blocked, the stream will not be long." If we want to collect more taxes, we must first of all protect and exploit the source of taxes. What is the source of taxes? To put it bluntly, it is the enthusiasm of enterprises and staff and workers for production. In experimenting with the substitution of taxation for profit delivery, Shanghai has adopted a policy to collect enterprises' income adjustment tax. Owing to insufficient experience and unscientific methods and basis, this kind of adjustment tax, in a sense, has taken away the part of profits made by enterprises through carrying out renovations and tapping potential. Some people have said: "If production increases 10 percent the adjustment tax will also increase 10 percent." Enterprises cannot have real benefits from it. We hope economic theory and practical work departments can conscientiously study this question and work out a more scientific and rational policy as soon as possible. If the profit delivery is replaced by taxation and enterprises' production is developed but "the boat does not go up when the river rises," the masses will be disappointed, production enthusiasm will decline and that state will lose its source of taxes.

Mei Shouchun [2734 1108 2797], deputy chief of the Shanghai Textile Bureau: To substitute profit delivery with taxation, we should formulate a set of scientific and rational tax policies. According to these policies and on the prerequisite of guaranteeing more revenue for the state, we must guarantee more profits for enterprises. In particular, we must work out a rational rate for taxes levied on excessive profits made by enterprises by increasing production and income. We should set aside some funds for enterprises to develop production and improve the masses' livelihood. Since Shanghai's textile industries are now badly in need of funds to improve current production situation, if proper tax policies are worked out, they will be able to get certain amount of money to further carry out renovations and tap potential. Otherwise, their potential will become smaller and smaller, and the source of state's taxes may dry up.

#### It Is A Success, not Failure

Zhang Jitang [1728 3444 1016], general accountant of the Shanghai Diesel Engine Plant: As an experimental unit for implementing the substitution of taxation for profit delivery, our plant confronted a serious shortage of production tasks in 1981 due to the overall readjustment in machinery industry. Unlike the Pengpu Machinery Plant, our plant, the Shanghai Diesel

Engine Plant, is a big plant with nearly 10,000 employees and a high degree of specialization, which cannot be easily retooled in a short period once its products are finalized. Facing great difficulties, all staff and workers of our plant gave full play to their subjective activity, open up all avenues, actively establish ties and contracted 1,531 business projects of various kinds, including even catering and service projects, which altogether earned them 7,245,000 yuan. However owing to the serious shortage of production tasks in machinery industry, our plant's profit level substantially reduced as compared to that of 1980. After paying all kinds of taxes, our plant did not have a single cent left. Instead, we owed the state 210,000 yuan of taxes. After a whole year of hard work, the staff and workers could not even have their wages and bonuses. Our plant could not tide over the difficulty until later financial and tax departments took into consideration the circumstances and reduced the income adjustment tax and income tax levied on our plant.

The "experience" gained by our plant as an experimental unit has drawn two views. One view considers our plant a typical example of failure in taxation. The other view considers our plant a typical example of success in taxation. Comrades holding the first view contend that the objective of the substitution of taxation for profit delivery is to let enterprises really assume sole responsibility for their own profits and losses under the precondition of guaranteeing more revenue for the state. In the final analysis, the Shanghai Diesel Engine Plant still relied on the "allowance" of the state and ate out of the "same big pot." Comrades holding the second view contend that the cause of the plant's losses is objective, not subjective. If the substitution of taxation for profit delivery had not been implemented, because all the losses caused by the shortage of production tasks would have been taken care of by the state, the plant's staff and workers would not have felt any pressure, they would not have shown so much initiative and enthusiasm and the plant's losses would have been more serious than they are. Therefore, we can conclude that the substitution of taxation for profit delivery is indeed much better than relying on the state to eat out of the "same big pot."

He Jigang: The experience of the Shanghai Diesel Engine Plant is very typical. Conscientiously summing up, analyzing and studying this experience is of great significance in guiding the work of the substitution of taxation for profit delivery. Microeconomy is restricted by Macroeconomy. It is very difficult for enterprises like the Shanghai Diesel Engine Plant to completely overcome the difficulties caused by objective factors in the period of readjustment. Simply emphasizing the need to assume sole responsibility for one's own profits and losses in the current stage without making concrete analysis of concrete situations will bring about a series of consequences and in fact is impossible. I believe that in order to be really able to assume sole responsibility for one's own profits and losses, we must carry out a series of reforms in all fields and draw up perfect measures and policies. At present, we ought to set the lowest level for the living standards of enterprises under special circumstances. The state will not offer enterprises and their staff and workers any "allowance" if their income is above this level. At the same time, we should also consider setting up a "reserve fund" in addition to enterprises' development fund, welfare fund and



bonus fund so that enterprises can withdraw a certain percentage of such a fund every year to "store up in fat years to make up for lean ones."

Perfecting these policies is absolutely necessary because along with the all-around implementation of the substitution of taxation for profit delivery, some enterprises will inevitably run into some situations similar to that of the Shanghai Diesel Engine Plant. If we fail to properly adjust our policies and work out some measures in advance, some projects will be very difficult to carry out.

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## INDUSTRY

### DROP IN FERROALLOY OUTPUT AFFECTS STEEL PRODUCTION

Beijing JINGJI RIBAO in Chinese 27 Jan 83 p 2

[Text] It is reported that China's ferroalloy output dropped successively in recent years and affected iron and steel production to a certain extent.

The ferroalloy output throughout the country last year was about 880,000 ton, a drop of 12.5 percent from 1980. The need throughout the country this year is 950,000 to 1 million ton, but the planned output is only 870,000 ton. The output of the Northeast region constitutes slightly over one-fourth of the national output and the varieties are fairly large. The Northeast Office of the Ministry of Metallurgical Industry is responsible for the supply of ferroalloy to the Northeast regional system of the ministry, the enterprises directly supplied by the various central ministries and the iron and steel plants of Liaoning, Jilin and Heilongjiang, but its stock dropped 2 consecutive years. Its stock of the 16 major varieties of ordinary and special grade ferroalloy is all dwindling.

Ferroalloy is a crucial raw material for steel smelting, and its shortage has disrupted the normal production of many steel mills. Last August, due to the shortage of silicon steel and silicon manganese alloys, the Anshan Steelworks failed to fulfill the contract to supply to the Northeast Class 1 Station of the China Metal Materials Corporation with 4,600 ton of small-sized spiral steel, resulting in the latter's failure to fulfill its 1,500-ton sales contract with six departments, including, railway, coal and metallurgy.

The basic reason for the current underproduction of ferroalloy is energy shortage. The ferroalloy plants are in a state of suspension or semi-suspension. With no assurance of supply, the various steelworks have dug into their reserves and caused large drops in the stock of the Northeast Office of the Ministry of Metallurgical Industry.

6080

CSO: 4006/387

## INDUSTRY

### SICHUAN'S METALLURGICAL INDUSTRY CREATES BEST RECORDS

Chengdu SICHUAN RIBAO in Chinese 2 Feb 83 p 2

[Article: "Sichuan's Metallurgical Industry Creates Best Records in History in Output Value and Profit"]

[Text] In implementing the policy of the national economic readjustment, Sichuan's metallurgical industry gradually shifted to the track of stressing the economic benefit. It vigorously concentrated on overall reorganization and comprehensive administration, improved operation and management, promoted the steady increase in production, and made a marked enhancement of the economic benefit. Last year, the total industrial output value was 2.971 billion yuan, an increase of 15.4 percent compared with 1981 and 11.4 percent compared with 1980, the best year in history; the profit realized was 395 million yuan, an increase of 19.7 percent compared with 1981 and 5.4 percent compared with 1980. The rate of increase in profit was higher than that of output value, and the profit turned over to the state was 225 million yuan, which was 21.16 million yuan more than 1981, an increase of 10.35 percent.

Last year, centering on economic benefit and vigorously carrying out overall reorganization, the provincial metallurgical industrial bureau focused on consolidating the backbone industries of large output value and high profit. By means of comprehensive handling, the planned enterprise management began to develop from productive technology planning to comprehensive operational planning; financial management gradually changed from balancing the books afterwards to control and forecast beforehand; the quality guarantee system on major products was preliminarily established. According to statistics, last year, the total cost of comparable products of the 23 key metallurgical industries throughout the province decreased 36.28 million yuan compared with 1981. The next thing was concretely learning the experiences of Shoudu Steelworks and reinforcing and perfecting the economic responsibility system of combining responsibility, right and interest. From the high level to the low level, the word "responsibility" was placed in the foremost position. The proper economic responsibilities of the industries toward the state and of the individuals

toward the industries were clarified and, in accordance with state plans, the quotas for contracting, guaranteeing, cooperation and inspection were formulated for every level, thereby defining the responsibilities of the workshops, teams and groups, and individuals. Strict inspection linked with reward was carried out, so that every post had its functions, every task had its criterion, inspection had its norm and merits and mistakes were rewarded and punished, thereby overcoming the egalitarianism in bonus distribution and activating the proprietary enthusiasm of the broad staff and workers. Third, under the situation of shortage of metallurgical products, serious attention was given to the quality of products, their use value and the enhancement of the comprehensive social economic benefit. Last year, the overall quality control was further reinforced, including improving the products and tackling the key problems. The stable improvement rate of the major quality norms throughout the province reached 100 percent. The tungsten trioxide of the Zigong hard alloy plant won the state gold quality award and 44 of its products were adjudged high-quality products of Sichuan province and the Ministry of Metallurgical Industry. Meanwhile, mass quality control groups were launched, producing 165 published results and 8.8 million yuan in economic benefit. Fourth, with lowering the unit product consumption as the focus, energy conservation was vigorously promoted. Last year, by relying on the broad staff and workers to remold the technology, energy conservation was further reinforced and a vigorous effort made to replace gas with coal, producing good results. In the first 10 months last year, the energy consumption per 10,000-yuan output value dropped 8.7 percent compared with the same period in 1981, constituting a saving of 356,000 ton of standard coal; the comprehensive energy consumption per ton of steel dropped 0.47 percent; the energy consumption per ton of steel products processed dropped 21.56 percent. Meanwhile, control of the staff and workers' energy consumption for living use was strengthened. Last year, 106,256 water, power and gas meters were installed and the practice of charging for the volume consumed introduced, thereby saving power by about 9.14 million kilowatt-hours, natural gas by about 5.19 million cubic meters and water by about 681,000 ton, constituting a total saving of 3.568 million yuan.

6080

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## INDUSTRY

### COURTS UNCOVER CRIMES WHILE HEARING CONTRACT DISPUTES

Harbin HEILONGJIANG RIBAO in Chinese 23 Jan 83 p 2

[Article: "Protect Legitimate Rights, Curb Economic Crimes and Improve Enterprise Management"]

[Text] Last year, the people's courts of the municipal and district levels in Harbin actively deployed the work of hearing contract disputes and made obvious results in protecting the legitimate rights of the enterprises, curbing all kinds of economic crimes and improving enterprise operation and management.

The Harbin municipal intermediate people's court and seven district people's courts handled last year a total of 551 cases involving all kinds of contract disputes. By the end of last year, 493 cases were concluded, constituting a 90-percent conclusion rate. The total target amount (value of the target objects) involved in litigation reached 8.1 million yuan. Compared with 1981, 288 more cases were accepted for handling, 279 more cases were concluded, constituting a 9-percent rise in conclusion rate, and the target amount increased 5.4 times.

The Harbin municipal intermediate people's court established an economic trial court at the end of 1979. After the beginning of 1980, the various district courts successively followed suit. Especially after the implementation of the "Economic Contract Law of the PRC" on 1 July last year, economic trial work became more active. In only 6 months, 135 cases of contract disputes were handled according to law.

The deployment of economic trial work protected the legitimate rights of the enterprises. In April 1981, the Qiqihaer municipal No 1 Flour Mill entered a contract with the Harbin municipal Longjiang chemical plant to supply castor oil to the latter. The 751 barrels of castor oil to be delivered amounted to 269,000 plus jin at a value of 280,000 plus yuan. The flour mill delivered the merchandise to the chemical plant according to contract, but the latter never paid for it. The Harbin municipal intermediate people's court accepted the case for handling in October and

heard it on 26 June last year. The judgment was that the defendant must pay the plaintiff 282,000 yuan for the merchandise, 30,000 plus yuan late penalty and 790 plus yuan for the shipping cost of merchandise returned. Thus, the legitimate rights of the flour mill were protected according to law.

In the course of hearing cases of contract disputes, prompt crackdowns were made on the various economic criminal activities. In hearing and concluding 88 contract disputes, the Nangang district people's court discovered 13 instances of utilizing contract for illegal criminal activities and severally handled the 18 criminals according to law. In the contract dispute between the Tangxian commune farm machinery repair and parts plant of Yongkang county, Zhejiang province, and the Xinfu brigade machine and electrical repair manufacture plant of Taiping district, Harbin city, the municipal intermediate people's court discovered that Ni Chenglin [0242 2052 2651], the agent signing the contract, utilized the contract to defraud the state of 5,900 plus yuan, and sentenced him according to law to 6 years of imprisonment for swindling.

When loopholes in enterprise management were discovered in the course of case hearing, the courts, by written "judicial suggestions," urged the enterprises concerned to make changes and promoted the improvement of operation and management. When hearing the case involving merchandise payment filed by the provincial cultural management committee and the Songhuajiang prefectural finance bureau against the Xinxiang brick plant, the Xiangfang district court discovered that the personnel of the Fenghua machine plant garage directly involved in the case had abnormal economic relations with others, causing the large outflow of gasoline from the garage. The court promptly issued its "judicial suggestions" to the discipline inspection commission of the Fenghua machine plant party committee. The plant party committee sent an investigator to the court to clarify the circumstances and verified the facts. Based on the suggestions of the court, the plant party committee revised the method of supplying gasoline, transferred and replaced the individuals involved, formulated new regulations and systems, improved enterprise operation and management and blocked the loophole. While hearing economic cases, the same court discovered that the poor management by the business office of the Qingan county agricultural bank resulted in the large outflow of blank checks, which were utilized by unlawful elements to commit crimes. Besides issuing "judicial suggestions" to the bank, the court also sent a copy of the same to the provincial agricultural bank, the higher level in charge. The provincial agricultural bank promptly notified the entire province and aroused the serious attention of its various local branches. According to statistics, "judicial suggestions" were issued promptly by courts of the municipal and district levels on an average of 20 percent or more among the economic cases handled by them.

Hearing contract dispute cases was a new component of trial work in the recent year or two. To familiarize the masses with the procedure, the

municipal and district courts openly tried a group of cases last year. In conjunction with the trials, they vigorously publicized the "Economic Contract Law of the PRC," carried out propaganda and education on the legal system and improved the legal concept of the enterprises.

Notes:

"Target:" A legal term, indicating the goal to be reached by litigation. The word sometimes refers to an object, known as "target object," and sometimes to money, known as "target amount."

"Judicial Suggestions:" Written suggestions of improvement made by the people's courts in the course of hearing cases based on the reasons for the litigation and the loopholes in the work of the units involved.

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## INDUSTRY

### STAGNATION OF SICHUAN'S TEXTILE PRODUCTS ANALYZED

Chengdu SICHUAN RIBAO in Chinese 24 Jan 83 p 2

[Article: "Unfold a New Phase in Textile Industry by Developing New Products"]

[Text] Last year, there was a large overstock of textile products throughout the country, and it was also extremely serious in our province. At one time, the warehoused cotton-polyester was as high as [figure illegible] meters, sufficient for more than 1 year of marketing. Under this situation, how to open up the market and unfold a new phase in the production and marketing of Sichuan's textile products became an urgent matter.

To explore the issue, we first analyzed the reasons for the stagnation. Ours is a large province with close to 100 million population. According to information of departments concerned, the production capacity of the industry in the province can only satisfy 70 percent of the need, and the reason for the stagnation was the large influx from other provinces. In the 3 years from 1979 to 1981, the total volume of cotton-polyester, for instance, coming into our market from other provinces through state commercial channels was 146.28 million meters, which was 37.74 million meters more than our warehouse stock at the end of August last year. Obviously, if the influx from other provinces was a little less, our overstocking would not have been so serious. Naturally, ours is a socialist economy with a unified domestic market, and competition among the various provinces is both rational and beneficial to the development of our national economy. The technology and equipment of Sichuan's textile industry were not inferior to other provinces, but why did their products flood our market and cause our overstock? We felt that the main reason was that we were always lagging behind them in creating new products, thereby placing ourselves in a passive situation.

In recent years, the textile market has changed from a "seller's market" to a "buyer's market," and the consumers, instead of "panic buying," are now practicing "selective purchasing." Consumer demands influence production in both quantity and quality. Meanwhile, in addition to the quality demand, the consumers place an even greater stress on the colors



and varieties. With the improvement in the people's material and cultural living standards and as textile products are easily damaged, changes in consumer demands on design, color and variety tend to accelerate. Therefore, whether we can produce the newest and most attractive articles suitable to the market in the shortest time is the key to occupying the market. But the production of new articles first requires understanding of market demands, and information is necessary. The information for Sichuan's textile industry mainly comes from the commerce branch directly linked with the market. If a popular new product appears in Shanghai, for instance, it will also become very popular in Sichuan 6 months later. Thus, the commerce branch transmits the information to the producers. Apparently, this information is actually a sort of market feedback on the Shanghai product. To organize production based on it, our province is bound to be in a weak competitive position.

We know that the life cycle of a product consists of four stages: introduction, growth, maturity and decline. As the market demand of textiles changes rapidly, the replacement of the four stages is also very rapid. When a new product has become very popular in Shanghai, it indicates that it is already in the growth stage and developing toward the maturity stage in Shanghai. When Sichuan's textile industry begins to plan its production at this time, it is bound to be two stages behind Shanghai. Thus, by the time the product is produced in Sichuan and placed in the market and before it gains a firm foothold, it will encounter large volumes of the same article which, in the stage of decline in Shanghai, are shipped to Sichuan. As the Shanghai product, in the stage of decline or maturity, is large in volume and low in cost and its color, design and variety have been improved in the course of marketing, it is bound to have a strong competitive position. With the high cost of trial manufacturing and small volume, our product, which is in the stages of introduction and growth, naturally is weak in its competitive capacity. Take Shanghai's cotton outer garment for instance: When our product was put in the market, it encountered the severe battering of the Shanghai product due to the above reasons.

In view of the above analysis, we can see that, to open up the market for our textiles, we must continuously present marketable original products. Only by creating original products will we gain the initiative in competition, enhance our strengths and open up a new phase. In exploring new products, what must we do in order to remain ahead of other provinces and be the creators? We feel that the following must be accomplished:

1. We must establish the pioneering spirit and, in competitive strategy, place the creation of new products in an important position. The industries must be bold in thinking, doing and forging ahead, bringing forth their superiority, learning others' strong points to offset their weaknesses, broadening their vision and continuously innovating.
2. We must give full play to the allied strengths formed by the enterprise corporations. With the sorting link after printing and dyeing as

the cock, we must adapt to the market and make the changes promptly and skillfully. We must actively organize the exploitation of new products by speedy designing, small lot production and trial marketing in order to decide the production plans for the next step.

3. We must extensively deploy market surveys and make proper market forecasts. Besides collecting the feedback information on products which have already been placed in the market, market surveys also include gathering information on the changing consumer demands for the colors, designs and varieties of products, thereby enabling us to forecast the trend and furnishing us the basis to make new products exploitation plans for the future.

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## INDUSTRY

### HARBIN FORMS COMBINED TEXTILE CORPORATION

Harbin HARBIN RIBAO in Chinese 27 Jan 83 p 1

[Article: "Harbin Spinning, Weaving, Printing and Dyeing Combined Corporation Formed"]

[Text] The Harbin spinning, weaving, printing and dyeing combined corporation jointly funded by the Harbin Textile Bureau and the China International Trust and Investment Corporation held its first board meeting today to discuss and determine the leading organizational structure and make plans for speeding up the enterprise building this year.

In 1978, the province and municipality raised funds and began construction in Harbin of a 100,000-spindle textile dyeing plant. To increase the speed of construction, the municipal textile bureau and the China International Trust and Investment Corporation, after negotiations, promptly reached an agreement in principle last August to enter a joint venture, and a contract was signed in October. The contract stipulates the rights and obligations of the parties. The main items are: The two parties will jointly invest in the construction of a 100,000-spindle spinning, weaving, printing and dyeing enterprise, including a 50,000-spindle long and medium fiber spinning and weaving, a 50,000-spindle cotton-polyester spinning and weaving and a 4-line printing and dyeing branch plants, a 12,000-kilowatt-hour power station, auxiliary projects and a residential area. The 180 million-yuan renminbi investment is divided 6 to 4 between the two parties. Construction will be completed in July 1985 and trial production started, producing annually 50 million meters of medium- and long-fiber cotton-polyester. The profit is to be shared according to the proportions of investment, and so are the losses or other risks. The municipal textile bureau will be completely responsible for the production, scientific research, and operation and management of the corporation and the China International Trust and Investment Corporation will be responsible for importing a part of the equipment and parts and exporting a part of the products. Both sides have the right to supervise production, operation, cost accounting and financial management. The highest power structure is the board of directors formed by the members of the two

parties, and the manager responsibility system under the leadership of the board is to be followed.

The first board of directors' meeting today announced the selection of its chairman, vice chairman and members: Chairman, Zhao Changshun [6392 1603 7311], chief of Harbin Municipal Textile Bureau; vice chairman, Wu Ketai [0702 0344 3141], assistant general manager of Business Department, China International Trust and Investment Corporation; manager, Xing Yue-ting [6717 6460 1656]. The term of the joint venture is 15 years.

Currently, the first phase of the civil engineering construction of the 50,000-spindle medium- and long-fiber spinning and weaving branch plant has been completed, and most of the 1,200 units of main engines needed have been delivered. When put in full production, the combined corporation will enable Harbin's textile industry to make fairly large development.

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## INDUSTRY

### SYSTEMS OF REWARD, PUNISHMENT IN SHENZHEN DESCRIBED

Guangzhou YANGCHENG WANBAO in Chinese 30 Mar 83 p 2

[Article by Lan Guiliang [5663 2710 5328]]

[Text] The efficiency of some joint ventures using foreign capital in the Shenzhen special economic zone is fairly high, and most of them are able to complete their production tasks on schedule and in quantity and quality. One main reason is that, in the 2 plus years since 1981, these enterprises, which mainly follow the piece rate wage system, have earnestly implemented the principle of from each according to his ability and to each according to his labor, linked the quality of work with the economic benefit of all the staff and workers and enforced a set of rather strict and impartial reward and punishment systems. We will now use the staff and workers, plant chiefs and corporate managers in Luohu district and the Shenzhen Jiale bedding and furniture plant as illustrations.

#### Equitable Rewards

Upon completion or above-norm completion of tasks, the staff and workers all receive appropriate equitable rewards.

Staff and Workers. The "Industrial Management Regulations of Luohu District, Shenzhen Municipality (Draft for Trial Introduction)," introduced in 1981, provides: Every person who observes labor discipline, does not arrive late or quit early, and is not absent from work, or whose products are of good quality, will receive a 3-yuan full attendance or quality bonus for the month. ("Jiale Plant" pays 10 yuan). For those under the piece rate system, the piece rate wage standard is firmly followed in their pay, without any limitation. For individuals or groups and teams under the system of fixed wages according to work type plus floating bonus, "step bonuses" are paid all those who complete the quotas above norm. In other words, the quota output is used as the base, and bonuses for above-quota output increase progressively. The practice of the Luohu district gloves plant is as follows: With the quota as the base, a 10 percent bonus computed according to the unit piece rate is paid for



1 dozen pairs of above-norm output, 20 percent for 2 dozen pairs, 30 percent for 3 dozen pairs, etc.

More than 70 percent of the employees of the Shenzhen Jiale bedding and furniture plant are under the piece rate system. When the "step bonus" system is followed, the average of 15 mattresses per person per day is used as the base, and a 15-percent bonus computed according to the unit piece rate is paid for each above-norm mattress when 16 to 18 are completed in 1 day, a 30-percent bonus for each above-norm mattress when 19 or more are completed in 1 day.... The "step bonus" system is a great incentive to the staff and workers. Those who have completed 18 mattresses strive for 19, exhausting all means to exceed the norm. Last June, the average receipt per month per capita for all the employees of the plant was 170 yuan, and the highest was 300 yuan.

**Plant Chiefs.** Enterprises under the Luohu district introduced the following measure in 1981: Plant chiefs and assistant chiefs are tentatively paid 80 percent of their monthly wages and the balance is withheld. If an enterprise completes its profit contracting tasks (accounts settled every 3 or 6 months; final accounting at end of year), the withheld part is paid. In enterprises which complete above-norm the profit contracting tasks, an appropriate allocation is made for the enterprise leaders from the staff and workers' bonus fund withdrawn from the above-norm profit. The plant chiefs receive twice as much in bonus as the average employee, and the assistant chiefs 50 percent more than the average employee.

In the Jiale bedding and furniture plant, the fixed basic wage of the plant chief, which embodied the administrative iron rice bowl practice, was abolished; he is paid the same wage as the workers doing the same labor, and same deductions are made for absences due to illness or private affairs. His wage is computed as follows: The average wage of the workers of the plant plus a 15-percent administrative wage is used as the base. Thereafter, additional sums are paid according to evaluation, grading, contribution and performance. If the production tasks are completed above norm for the month, the plant chief may receive 200 plus to 400 yuan for that month.

**Managers.** The "Corporate Management Regulations of Luohu District (Draft for Trial Introduction)" introduced in 1981 provides: All enterprises in the district which fail to complete 70 percent of the profit contracting tasks may not collect profit bonuses; for those corporations which complete 84 percent or less of the tasks, the managers and assistant managers are neither rewarded nor punished; for those which complete 85 to 99 percent of the tasks, the managers and assistant managers may receive bonuses according to the criterion of the average bonus of the corporate administrative personnel. For those corporations which complete the profit contracting tasks, the managers and assistant managers, in addition to the average bonus of the administrative personnel, will also receive task completion bonuses from the head offices, which will amount to an additional 80 percent of the average bonus of the corporate administrative

personnel for the managers and 60 percent for the assistant managers. For those completing the profit contracting tasks above norm, the head offices will pay the managers and assistant managers an additional above-norm profit bonus, which will amount to an additional 100 percent for the managers and 60 percent for the assistant managers on top of the average bonus of the administrative personnel. In regard to the leaders of corporations which have not introduced the profit contracting system, the principle is less reward and no punishment, and the managers and assistant managers receive the average bonus of the administrative personnel which comes out of the profit. For above-norm completion of profit tasks, the head offices pay them an additional above-norm profit performance bonus, which amounts to 40 percent and 30 percent of the average bonus for the managers and assistant managers respectively.

#### Just Punishment

Besides bonuses, the enterprises also apply economic sanctions according to the circumstances.

**Staff and Workers.** For absences without cause for 1 day, the offender is issued a warning and fined an equivalent of his daily basic wage plus a "double make-up" penalty. (Jiale plant imposes a 10-yuan fine per day). For the second absence of the month or an absence of 2 days or more, the offender is fined 150 percent of his basic wage for the day. Absences in excess of 5 times during the month or in excess of 7 consecutive days are treated as voluntary withdrawal from job. The Luohu gloves plant also has the following provision: Where a worker fails to complete the quota, he may not receive a border subsidy. On the quality of products, it provides: Where a problem appears in the quality of products, those which can be done over again must be done over. When a worker completes less work because of doing something over again, his wage and bonus must be appropriately reduced. If he produces a reject article, he is fined double the amount computed according to the unit piece rate. In the course of introducing the assembly line process, if the quality problem of the products of the first group is not discovered by the second group, but by the third group, then the second group is penalized, but not the first group. The bonus for discovering and reporting quality problems may amount to 50 percent of the fine. For a reject product missed by the quality inspector, the fine is 50 percent of its unit price.

**Plant Chiefs.** The enterprises under Luohu district made the following stipulation in 1982: Where an enterprise fails to complete its profit contracting tasks, a percentage computed according to the uncompleted amount of profit is withheld from the monthly wages of the plant chiefs and assistant chiefs. The practice of the Jiale plant is as follows: If the production tasks are not completed, the average wage of the staff and workers throughout the plant is reduced besides the appropriate reduction of the chief's basic wage, and bonuses are decreased or withheld. If the chiefs of these enterprises, due to their improper management or delinquency of duty, causes losses to the enterprises, they will also suffer economic sanctions and other punishments.

Corporate Managers. The "Regulations" of Luohu district provides: For all those enterprises under it which fail to complete 70 percent of the profit contracting tasks, the managers and assistant managers not only will receive no bonus, but also fined 10 percent and 5 percent respectively of their monthly basic wages.

The reward and punishment systems discussed above, which link the economic interests of the enterprise leaders and workers with their responsibilities and the quality of the economic benefits achieved by them, and with their posts and the quality of their work, embody more effectively the principle of distribution according to labor. The tasks are much heavier, but additional pay is given for extra labor. The integration of responsibility and benefit has activated the workers' productive fervor and creativity and propel them to strive to complete the production tasks. The Jiale plant, for instance, has completed its production tasks above norm year after year. The volumes of its 1981 and 1982 mattress export continuously increased 30 percent or more. For 1981, its output value was 3.25 million yuan, the profit was 310,000 yuan, and the labor productivity of the entire personnel was 36,000 yuan. In 1982, its output value rose to 7 million yuan, profit 540,000 yuan, and the labor productivity of the entire personnel 51,852 yuan. Yet the plant has only eight administrative management personnel away from production, constituting only 5.5 percent of the entire personnel.

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## INDUSTRY

### NINGXIA MUST SPEED UP REFORM OF RURAL COMMERCE

Yinchuan NINGXIA RIBAO in Chinese 31 Mar 83 p 3

[Article by Yun Tao [6663 3447]]

[Text] The pace of reform of Ningxia's rural commercial system is slow and many aspects remain the same as before, far from adapting to the changing new situation. Analyzing it, we find that, while the reasons are manifold, the main one is the failure of many comrades to understand the necessity of reform.

Launched in the early fifties with funds raised by the peasant masses, the rural supply and marketing cooperative was the peasants' own commercial organization. Its activities were closely linked with the interests of the peasants. It had a relatively sound set of democratic management methods, paid regular dividends and gave its members priority in handling their purchasing and marketing business. Subsequently, under the "left-wing" ideological influence, it was changed into government commerce under popular ownership. Thereupon, bureaucracy developed and little consideration was given to the interests of the peasants. The cooperative drifted away from the peasants and made it inconvenient for them in production and living. After the 3d Plenary Session of the 11th Party Central Committee, great changes have occurred in the rural economy. The entire rural economy is shifting from self-sufficiency and semi-self-sufficiency to large-scale commodity production, and from traditional farming to modern agriculture. The peasant masses urgently need a commercial organization which is closely linked with agricultural and sideline production, and can promote and guide the development of production, expand economic diversification and help them become wealthy. There is a song circulating among the peasants of Pingluo county: "One cannot eat one's full without producing grain; one cannot get rich without economic diversification; one cannot survive without commerce." Obviously, the peasant masses urgently demand reform, hoping that, by means of reform, the old tradition of the supply and marketing cooperative will be restored and made into their own commerce, in order to enliven the economy.

In the reform of the rural supply and marketing cooperative system, the experimental counties in the various areas have created many good experiences. The two most basic ones among them are: The first is to restore the cooperative commerce of the supply and marketing cooperative, expand its character of being run by the people and strengthen its mass nature. It is the basis of reform. They generally start by sorting out the money paid for shares through the years and paying retroactive dividends. Based on the principle of "voluntary participation and free withdrawal," they encourage the masses to join. On this basis, they introduce democratic management through the election of the board of directors and board of supervisors. The second is the overall practice of "combined agricultural-commercial operation," gradually shifting the focus of the cooperative from simple buying and selling to rendering comprehensive service to rural commodity production, including supply of information, products marketing, and services in goods and materials, funds and technology. Reform in the above two aspects will restore and strengthen the mass nature of the cooperative organization, democracy in management and flexibility in operation, thereby enabling it to render support to agriculture, promote the rural economic alliance and develop its role as the main channel of rural commodity circulation.

Compared with the advanced areas throughout the country, Ningxia is one step behind in the reform of rural commerce and its pace is slow. We should adopt effective measures to speed up the progress.

First, we must fully understand the extreme importance and urgency of reform. Reform of rural commerce is an important component of the system reform of the entire national economy. The speed of reform in the realm of commodity circulation has become a significant factor influencing the development of the rural economy and of the entire national economy. Short of vigorously concentrating on the reform of the cooperative system, it will be impossible to reverse the passive situation of rural commerce.

Next, we must vigorously propagandize the reform. Reforming the rural commercial system in our region is a momentous matter concerning the several thousand staff and workers of the cooperatives and several million peasants throughout the region. We must, in all kinds of forms, propagandize to the staff and workers and peasant masses the policies of reform and its momentous significance, and explain its main substances, methods and steps, so that they will acquire an adequate understanding of the reform of rural commerce, support and take part in it and bring to full play their intelligence and wisdom in the practice of reform.

Thirdly, we must vigorously tackle the work of the experimental units and strive to spread the reform throughout the region within the shortest time. As long as we follow the instructions of the Party Central Committee, integrate the advanced experiences of other areas with the reality of our region, explore earnestly and innovate boldly, and carry out arduous and painstaking investigations, studies, comparisons and analyses, we will, through practice, improve continuously and gradually attain



perfection, and we will successfully complete the tasks of reforming the rural cooperative system of our region and unfold a new phase in rural commerce.

Lastly, we must strengthen the leadership of reform. It is the key to speeding up the reform of rural commerce in our region. As demanded by the Party Central Committee, the organizations of the various levels and the leading cadres must serve as promoters of reform, supporting, participating in and leading it, and giving the masses a free hand in practicing, creating, gradually improving and perfecting. Meanwhile, we must reinforce the ideological-political work on reform. Reform is a profound revolution, and all kinds of ideological problems may emerge. Some cadres are afraid of being disqualified; the staff and workers are afraid of losing the "iron rice bowl;" the peasants are afraid of policy changes; etc. Thus, we must properly perform the ideological-political work with a purpose in mind. In regard to the worries of the staff and workers that they will be changed to collective employees, we should explain to them that, after the supply and marketing cooperative is changed into cooperative commerce, the present regular employees will remain state employees and that, before the complete reform of China's labor wage system, all political and economic treatments will remain unchanged. As for the floating wage system trial introduced in the reform, the purpose is to implement more successfully the principle of distribution according to labor and encouraging the industrious and punishing the lazy, which is advantageous to the overwhelming majority of them.

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## INDUSTRY

### NEGATIVE EFFECT OF CONTRACTING DECRIED

Shanghai JIEFANG RIBAO in Chinese 30 Mar 83 p 2

[Article by Wang Yougen [3769 0645 2704] and Zhang Yongzhang [1728 3057 4545]]

[Text] We recently heard about the following case: Two stores were once friendly "competitors," regularly exchanging experiences, discussing skills, mutually helping and learning from each other and improving together. After the introduction of the economic contract responsibility system, they became more and more estranged, mutually "blockaging" information from each other and at times quarreling and exchanging blows over business and customers, and the "competitors" turned into enemies. Reportedly, it was not an isolated case. Some individuals prejudiced against reform used such cases to make an issue.

It has made us feel that we must say a few words about the negative effect of "contracting."

Today, to eliminate the "large-pot rice" and "iron rice bowl" and firmly carry out reform, the introduction of all kinds of contract responsibility systems is undoubtedly necessary and correct. Nevertheless, by so doing, it does not mean that "those in the same trade" should become "enemies." By means of the responsibility system in various forms, individuals and enterprises will become more competitive. It is a good thing, beneficial to activating the enthusiasm of the individuals and enterprises and enlivening the economy. Without competition, it will be impossible to tell the superior from the inferior, to produce talents and to give vitality to the enterprises. However, it is competition under the socialist system for the purpose of giving full play to people's intelligence and wisdom, activating all positive elements and performing the work successfully. It is essentially different from the law of the jungle and the "large fish eating little fish, and little fish eating shrimps" followed by capitalism. Therefore, we must, in competition, stress style, the overall situation and cooperation and strive to create the lively situation of "one flower influencing a hundred flowers to bloom" and "millions

ascending the storied building, higher step by step;" we must never start purely from the narrow interest of our own units or departments, isolate ourselves from others and benefit ourselves at the expense of others. The purpose of reform is to liberate the social productive forces and further improve the relations among people. If we mutually blockade and jostle one another, manage our enterprises and handle the relations among them with the capitalist operational ideology and style and cause the "steady deterioration" of human relations, will we not be fettering the development of productive forces and deviate from the purpose of reform?

There was a news item in the papers: The operation and management of a restaurant run by an intellectual youth were good, but those of a state restaurant nearby were rather chaotic. The former revealed completely its experiences in operation and management, and the latter voluntarily sent its business personnel to learn cuisine from the former. Their personnel visited each other frequently like one family, mutually helping and complementing each other. On this basis, they brought all their skills into play and greatly enlivened and developed their business. Consequently, the economic benefits of both showed substantial increases. It indicates that contracting and competition do not necessarily make "enemies" out of those in the same field and that they can and should become comrades-in-arms with a common goal. The fact that the situation of "enemies in the same field" has emerged in some units after introducing the contract responsibility system is mainly because of their failure to understand that the competition referred to by us is one which is under the socialist system. We should, like the two restaurants mentioned above, develop our style, consider the overall situation and strengthen cooperation, instead of mutually blockading each other and pulling the rug from under each other's feet.

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## INDUSTRY

### BRIEFS

HEBEI'S TAX REVENUE--27 Mar--The comrade of the General Taxation Bureau attending Hebei's tax work conference said in his speech: Last year, 10 areas throughout the country completed the annual tax collection tasks 200 million yuan above norm, and Hebei province was one of them. This year, the rate of increase of Hebei's tax collection has surpassed the average national level. Last year, it completed 109.9 percent of the annual plan for industrial-commercial taxes, an increase of 11.3 percent over 1981, and collected 234 million yuan above norm for the year. From January to the first third of March, its cumulative receipts were 485 million yuan, an increase of 6.4 percent over the same period last year, completing 19.9 percent of the annual plan. For the same period, the national industrial-commercial tax receipts increased 4.6 percent over the same period last year, completing 18.9 percent of the annual plan. [Text] [Shijiazhuang HEBEI RIBAO in Chinese 28 Mar 83 p 1] 6080

WASTE RECOVERY--In 1982, 12.5 million ton of waste and old materials of all kinds were collected throughout the country, with a total value of 2.69 billion yuan, an increase of 10.6 percent in volume and 8 percent in value over 1981. The recoveries of 13 major varieties all gained to different degrees, including gains of 13.6 percent for scrap iron and steel, 13 percent for papermaking raw material and 15 percent for light and chemical industrial raw material. Many areas launched comprehensive utilization of waste and old materials. Last year, Beijing, Tianjin and Shanghai extracted from waste residue and waste liquid over 3,700 liang of gold, over 28,000 kg of silver and over 3,800 ton of all kinds of chemical industrial raw material. Waste plastics was utilized to make colored plastic tiles and calcium plastic plates. The output value of waste and old materials amounted to over 107 million yuan. [Text] [Beijing JINGJI RIBAO in Chinese 3 Mar 83 p 2] 6080

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## DOMESTIC TRADE

### CONSOLIDATION OF COMMERCIAL ENTERPRISES URGED

Beijing SHANGYE KUAIJI [BUSINESS ACCOUNTING] in Chinese No 3, 10 Mar 83  
pp 10, 11

[Article by Han Xuejian [7281 1331 6943], Office of Finance and Accounting, Bureau of Commerce, Heilongjiang Province: "Conscientiously Carry out 'Three Checks' in Combination with Consolidation of Commercial Enterprises"]

[Text] Since June 1982 commercial departments of Heilongjiang Province have launched, in combination with the consolidation of commercial enterprises, the work of checking goods, checking property and checking funds (abbreviated as "three checks") and have achieved good results. According to the preliminary statistics of 74 municipal and county commercial departments and provincial enterprises, they have uncovered: 352 million yuan worth of problem goods, 7,468,000 yuan of profits in goods and property and 13,172,000 yuan in losses; 253 million yuan of problem funds, such as sales on credit, advance payments and arrears in payment without reason; 7,000 or so "goods without owners" and "excessive leftover goods"; and 161 cases of economic crimes such as graft and embezzlement, speculation and profiteering, etc., with a value of 230,000 yuan. Commercial departments of all localities, in close combination with consolidation of enterprises' finance, readjusted stock structure, actively promoted sales of goods and promptly dealt with uncovered problems. By the end of October, the whole province had promoted the sale of more than 1 million yuan of problem goods, about 30 percent of the total uncovered value; 71 million yuan of irrationally used funds had been recouped; and 122 cases of economic crimes had been thoroughly investigated and handled. Through "three checks" the enterprises have basically gained a clear understanding of the quality of their commodities, property and funds, and were informed of existing concrete situations and problems in these areas. They have basically uncovered violations of regulations and discipline, such as blind purchasing, fraud, sales on credits at will, and misappropriation of funds, etc., and have strengthened every basic work of the enterprises. The "three checks" had been implemented earlier in commercial departments, but it is being carried out, in the new situation, in connection with consolidation of the enterprises, and has added new meaning. The concrete steps are:

I. Closely link the consolidation of enterprises and intensive investigation of finance; strengthen the leadership in the "three checks". In the early



days after the "three checks" was begun, the consolidation of enterprises had just been launched, the Central Committee's Document No 17 had just been implemented, and the crackdown on criminal activities in economic areas had just started. The provincial bureau held a meeting of directors of bureaus of commerce and service trade in June 1982, where a special plan was worked out on how to enhance the "three checks" in the province. It was decided that the whole plan will be carried out in four stages:

- 1) Launch ideological mobilization so staff, workers and cadres will understand the necessity of the "three checks" and will earnestly join in the movement. In addition, investigating groups are to be formed, making preparations prior to checking and auditing.
- 2) Enterprises and persons in charge of goods and materials check and take inventory of the goods, funds and property under their management, and examine the accounts.
- 3) Deal with the uncovered problems, sum up experience, draw lessons, and establish and improve rules and regulations.
- 4) The administrative units of commerce organize joint efforts in carrying out examination and approval and sum up appraisals through comparisons.

Commercial departments at all levels have made detailed arrangements for the "three checks" and set up "three checks" units. Provincial, prefectural, municipal and county commercial administrative units have transferred more than 3,000 cadres and professional staff, and organized them into 2,800 check groups. To lead this work successfully, the provincial bureau has also transferred some 30 cadres from the bureau and provincial enterprises, organizing them into 6 working groups, with work divided up and assigned to each group. The groups then went down to all prefectures and municipalities directly controlled by the central government to help make a good job of the "three checks". Local governments at all levels have also attached great importance to this work. Some chief county leaders personally directed and participated in checking. Financial and banking departments gave energetic support by sending personnel to help in the "three checks". Because of the attention paid by party leadership of all levels and the clear understanding of cadres, employees and workers, the "three checks" has unfolded rapidly in our province.

II. Actively rely on the masses. The "three checks" involves every department, every link and every worker of the enterprises. In particular checking and making inventory are the key to the success of the work. Detailed steps are as follows:

- 1) Combine overall checking with point checking. The majority of enterprises and departments have used typical examples of checking to lead the way. Along with checking in all areas, one or two points are to be re-checked by a work group sent from a higher level commercial department. Then experience gained is summed up to guide the overall checking.

2) Combine self-checking with mutual checking. Checking starts with enterprises' self-checking. Commodities and property are to be taken off the shelves and replaced; the goods are checked against the accounts and the accounts are checked against the goods. The funds are checked item by item according to headings and accounts. On the basis of mass self-checking, enterprises or departments are organized to carry out mutual and joint checking.

3) Combine internal checking with external checking. In the process of checking, enterprises will periodically classify and line up the uncovered problems, determining the nature and putting them on record. Questionable cases and outstanding accounts and cases involving the enterprises will be checked externally.

4) Combine checking with handling. Many places and enterprises actively and seriously deal with the uncovered problems, based on the principle that easier cases are to be dealt with first, difficult ones later; simple ones first and complicated ones later, in order to avoid the situation of first checking, later messing up, or while checking, things get messed up.

III. Conscientiously sum up experience and lessons, establish and improve rules and regulations. To counter the problems revealed in the "three checks", commercial departments of the province have launched big discussions on strengthening the management of enterprises and increasing economic results. Various localities have organized the vast number of cadres and staff and workers to analyze the reasons for many confusions and loopholes in some enterprises' management, and have mainly summed up the following experiences:

1) We must attach importance to economic results in commodity management. In recent years some enterprises have paid attention only to purchase and sale, neglected economic results and slackened enterprise management. From 1978 to 1981 the whole province handled nearly 600 million yuan of problem goods, with a 160 million yuan loss, more than 40 percent of the total profits gained in these 3 years. Up to September 1982, 16 percent of the commodities in stock in our province consisted of problem goods with a value of 350 million yuan. Part of the problem was caused by replacements, but a large part was caused by subjective reasons, such as bad management, blind purchase, etc. We must learn from these serious lessons, earnestly improve the purchasing system and carry out successfully commodity management.

2) We must have rules and regulations, constantly strengthen and improve the economic responsibility system. During the "three checks" it was discovered many enterprises did not conscientiously and seriously observe discipline, did not adhere to policy, nor act in accordance with regulations. A strict economic responsibility system and system of rewards and penalties were not established. Therefore, the enterprises' management could not be strengthened for a long time. The products of the Xiangfang Soy Sauce Factory of Harbin were short by 111,000 yuan. Cashiers of Sanhetun Department Store in Wuchang County falsified deposit bills and embezzled 17,000 yuan. Thus we can see that establishing and improving the economic

responsibility system and other rules and regulations, as well as enforcing financial and economic discipline are necessary in order to strengthen the management and control of enterprises and to increase economic results.

3) We must strengthen political and professional education of young employees and workers. In recent years, the proportion of young workers has been growing, the majority of them being without systematic education. Their cultural and scientific knowledge, professional and management ability, and quality of service, etc., are all very insufficient. For example, some storage workers, who did not have a strong sense of duty and lacked professional knowledge, once placed tea in one storeroom with pepper and fermented bean curd, thus ruining its flavor. The tea was damaged. Therefore, we must carry on planned and systematic training of the vast number of workers (especially the young ones) to raise their political and professional standard.

On the basis of the experience and lessons summed up about the management and administration of enterprises, commercial departments at all levels have planned measures for consolidation and transformation, and established and improved some necessary rules and regulations. In the whole province, retail trade has checked and ratified the funds and implemented fund quota control. Measures, such as "guaranteed fund analysis" in the Harbin Department Store and "two level business accounting and quota control" in the Mudanjiang Department Store, have been widely implemented among the second-level service centers. The provincial bureau has drawn up "nine stipulations concerning strengthening the management of commercial enterprises' liquid funds", "classification and ranking standards for storage consolidation", and "measures for assessing and grading business accounting of commercial enterprises", etc. These regulations will play an important role in successfully carrying out the consolidation of the enterprises.

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## HONG KONG MEDIA ON CHINA

### SEVERAL PROBLEMS IN JOINT VENTURES ANALYZED

Hong Kong WEN WEI PO in Chinese 29, 30 Mar 83

[Article by Gu Shuzhen [7357 2885 2823], vice president of China Accounting Society: "Several Financial Problems in Shanghai's Chinese-Foreign Economic Cooperation"]

[29 Mar 83 p 7]

[Text] China's economy has moved on to a healthy course, and the prospect of developing economic and technological interchanges abroad is extremely broad. Shanghai is the largest city in China, and the state asks that it break a new path in utilizing foreign capital and importing technology, in order to pioneer technological transformation and urban construction.

The quarters concerned in Shanghai are in the course of creating conditions for a greater success in utilizing foreign capital and importing foreign technology. The principles are: 1. On the basis of self-reliance, Shanghai actively welcomes cooperation with investors abroad. 2. On the basis of equality and mutual benefit, foreign investors must be given good prospects of gain and the opportunity to reap a higher return on their investment than the commercial interest rate of the international money market.

Shanghai's goal in utilizing foreign capital and importing foreign technology is to introduce suitable advanced technology and scientific management methods in order to raise productivity, conserve energy and raw material, strengthen the weak technological links, create urgently needed products which are in short supply in the country, transform the technology of the existing industries, enhance the position of its products in the international market, improve its urban appearance and elevate the scientific and technological and management levels of its personnel. Nevertheless, in view of Shanghai's urban characteristics, when we launch projects involving foreign capital, we must not be excessive in taking possession of land, constructing new factory buildings, consuming energy and aggravating environmental pollution, and we must not take over our

export allocations, for otherwise the resulting conflicts brought to our society and economy may exceed the benefits. Thus, there have to be restrictions on such projects.

The focuses of utilizing foreign capital and importing technology include the fields of energy, communication, metallurgy, petrochemistry, electronics, machinery, daily need consumer goods, construction, agriculture, and municipal engineering, all very substantive in nature. Sixty projects were proposed last October and over 300 recently. The list will be supplemented from time to time, and the cooperation of foreign industry and commerce is welcome.

Shanghai has now decided to open an export industrial section in the Minhang area, which is 30 km from downtown. Its land and water communication is convenient and its municipal construction already possesses a certain scale. With some minor expansions, it will satisfy the requirements of an industrial section.

Shanghai has also decided to open a foreign affairs section in Hongqiao, which is about 6 km from both downtown and the Hongqiao airport. Its convenient communication and quiet environment make it suitable as the center of foreign economic activities. Shanghai has formed a special development corporation to make preparations for the construction of the two sections. The Minhang industrial section will make investments to establish plants next year.

The State Council decided to form the Changjiang Delta economic region, centering on Shanghai and encompassing Suzhou, Wuxi, Changzhou, Nantong, Hangzhou, Jiaxing, Huzhou and Ningbo, covering more than 30,000 square km in area and including more than 30 million population. It is the richest region in China. Therefore, investing in Shanghai has a broad prospect of development. Shanghai will become an arena for long-term, stable and profitable foreign investments.

Shanghai plans a further liberalization in order to attract more foreign capital. Upon approval by the higher level, the liberalization will be promulgated and made effective. We will now discuss our views on some relevant problems:

1. Taxation. China's taxation of Chinese-foreign joint ventures and foreign investors consists of only six categories, viz., customs duty, enterprise income tax, individual income tax, industrial-commercial unified tax, real estate tax, and vehicle and ship license tax. Compared with the dozens levied by some countries, the categories are oversimplified and the burden fairly light. The real estate tax rate, for instance, is 1.2 percent of the value per annum. Vehicle and ship license tax differs in the different provinces and municipalities. The license tax of a 4-ton truck, for instance, runs between 16 and 60 yuan per annum. We will now discuss specifically the other categories of taxes.



**Joint Venture Income Tax.** The state tax stipulated in the "Income Tax Law on Chinese-Foreign Joint Ventures" and its "Rules of Enforcement" and the local surtax amount to 33 percent. Compared with other countries, China's tax rate is in the medium-low range. The tax law also stipulates that, upon approval, the newly established joint ventures of a 10-year or longer term, beginning from the first profitable year, are exempt from income tax for the first year and liable for 50 percent of the income tax for the second and third years. If the profit is reinvested in China, 40 percent of the taxes paid will be refunded. Of course, our tax rates are higher than the Shenzhen special zone as well as Hong Kong. While Shanghai is not a free port, to encourage foreign investments, it envisages greater preferences to joint ventures. Besides the exemptions and reductions already granted in the tax law, the joint ventures may, based on the amounts of profit, be exempted from tax for 1 to 3 years, beginning from the first profitable year, and thereafter have their income tax reduced to 50 percent for 2 to 4 years. In individual cases where there are still difficulties after the periods of exemption and reduction, appropriate tax reductions may be granted. Beginning in the month of receipt of the first payment from foreign plants, joint ventures in material processing, parts assembling and compensatory trade are exempted from industrial-commercial unified and income taxes for a period of 3 years.

In terms of income tax, there is also the issue of double taxation. The income tax rates of many countries are higher than ours. Even if such countries sign an agreement with China to avoid double taxation, foreign investors must pay to their own governments the differences resulting from the different rates. Therefore, China's low tax rates and exemptions do not truly benefit the investors of those countries.

**Individual Income Tax.** The state has already promulgated the "Law on Individual Income Tax" and its "Rules of Enforcement." According to the law, foreign personnel must pay individual income tax on the portion of their salaries and remunerations received in China in excess of 800 yuan renminbi per month. The excesses are taxed at progressive rates of 5 to 45 percent. Taxes on receipts from labor remuneration, use of special-permit rights, interests, dividends, bonuses, property rentals and others are levied a proportional rate of 20 percent. The tax law also stipulates that foreign personnel having resided in China for 5 years or more must also pay tax on their income received abroad. It is much more liberal than America and Japan which collect a tax on their income abroad after a one-year residence. Even so, some foreign personnel are still complaining, on ground that their lengthy residence in China is due to the need of work, while they themselves have no desire to remain. Therefore, the departments concerned are studying methods of accommodation and planning to exempt their income abroad from taxation.

**Industrial-Commercial Unified Tax.** Foreign investors have quite a number of complaints against the industrial-commercial unified tax. What must be explained here is that the tax was approved and published in 1958 by

the standing committee of the NPC. During the trial introduction of tax reform in 1973, the State Council approved the measure to revise the industrial-commercial unified tax into the industrial-commercial tax for trial implementation in China, but it was not made into a formal law and published to the outside world. Therefore, in terms of Chinese-foreign joint ventures and foreign firms in China, we can only apply the "Regulations on the Industrial-Commercial Unified Tax." In terms of most of the trades and professions and products, the rates of the industrial-commercial unified tax are higher than the industrial-commercial tax. For this reason, Shanghai is planning to liberalize. The tentative measures are:

(1) Customs and the industrial-commercial unified tax of the importing link are exempt on machine equipment, parts, raw and processed materials, fertilizers and feed imported by Chinese-foreign joint ventures which are registered as capital investment according to contract, and machine equipment and parts which are purchased by borrowed funds by the joint ventures abroad and imported for their own use.

(2) From the day of approval of the joint venture, its registration and establishment to the completion of construction and start of operation, customs and industrial-commercial unified tax of the importing link are exempt on all kinds of building materials which are purchased abroad and imported by a joint venture for its own plant construction.

(3) Customs and industrial-commercial unified tax of the importing link are exempt on raw and processed, secondary and packaging materials and parts for set forming imported by joint ventures for the purpose of producing export products. Nevertheless, if the products are shifted to the domestic market for sale, the customs and industrial-commercial unified tax of the importing link must be retroactively levied, in order to maintain balance with the tax burden on domestic enterprises.

(4) In the early period of operation, joint ventures producing export products may apply for exemption from the industrial-commercial unified tax for a period of 3 to 5 years (computed from the day the first lot of products is sold abroad). At the end of the term of exemption, where difficulties are encountered in exporting for marketing abroad, they may reapply for a suitable reduction.

(5) Where the applicable rates of the industrial-commercial unified tax to be paid by joint ventures when marketing their products are higher than the rates of the domestic industrial-commercial tax, they may be reduced to the rates of the industrial-commercial tax.

[30 Mar 83 p 7]

[Text] Some foreign investors maintain that "Western countries have no industrial-commercial unified tax, and the burden of the business tax is on the customers." We feel that, in spite of their high income tax,

Western countries still levy a number of taxes on commodity production and marketing. Britain, France, West Germany, Italy, Holland and Sweden, for instance, generally enforce an added-value tax, i.e., taxing the production, shipping, wholesale and retail links according to the amount of value added. Britain, America and many countries also levy a consumer tax: By means of the extraprice tax, a certain percentage of tax is added to the price of the commodity. The "burden on the customers" mentioned above seems to refer to this situation. Actually, same as China's industrial-commercial unified tax, the added value and consumer taxes are indirect taxes shifted on to the users, except for the differences in the scope, rate and pattern of levy among the various countries.

2. Foreign Exchange. On foreign exchange control, China promulgated the "Provisional Regulations on Foreign Exchange Control." The control of the foreign exchange of joint ventures should also be handled according to the "Regulations." In terms of joint ventures, we naturally hope that they can sell their products abroad and maintain balance in the foreign exchange needed by them, but it will be even better if they can create a little surplus. Nevertheless, this demand is not inflexible. Some joint ventures indeed have difficulties in selling their products abroad and balancing their foreign exchange receipts and expenditures, and Shanghai plans to adopt flexible methods. The proportion of remittance abroad by foreign personnel from their salaries and remunerations, after payment of individual income tax, was originally set at 50 percent, but Shanghai plans to liberalize it to 75 percent of their wages and other legitimate receipts.

3. Use Charge for Plant Sites. The "Law on Chinese-Foreign Joint Ventures" stipulates: "The investment of the Chinese joint venturer may include the right of use of site provided the joint venture for the term of its operation. When the right of use of site is not made a part of the investment of the Chinese joint venturer, the joint venture must pay a use charge to the Chinese government." The base for the criterion of the use charge is determined by classifying the land of the entire city, and the range of increase and decrease is set according to the different trades and professions. Classified according to sections, urban area is higher than suburban area, near suburbs higher than far suburbs, townships higher than rural areas, downtown higher than the periphery, and busy section higher than other sections. Among sites of the same class, sections with convenient land and water communication and relatively complete municipal works and auxiliary facilities are higher than sections with inconvenient land and water communication and the newly developed areas; sections with existing plants are higher than the new industrial sections; sections where existing enterprises may be utilized for remodeling are higher than those requiring new plants. Classified according to trades and professions, land for industrial use should be higher than for agricultural use, land for commercial use higher than for industrial use, and land for tourist and office buildings higher than for general commercial use. Sites for different industrial uses should also be handled differently. The specific criterions and ranges of increase and decrease are

being formulated by the departments concerned and will be published. In regard to joint ventures whose technology is particularly advanced, whose products are urgently needed by the state, which need much space, and whose investment is large yet the profit relatively low, the use charges for sites, upon application and approval, may be reduced. The use charges for sites of joint ventures in agriculture and livestock may be determined according to a percentage of the receipts.

The term of site use should be identical with the stipulated term called for in the approved joint venture contract. Where a joint venture wishes to prepay the use charge for a certain number of years, it may be paid in its current value computed according to the Bank of China interest rate on general loans.

Where the right of site use is considered the investment of the Chinese joint venturer, the amount of investment is the current value computed according to the amount of the annual charge and the term of the joint venture. There will be no adjustment of the criterion of the use charge during the first 5 years of use; thereafter, the interval between adjustments will be no shorter than 3 years and the range will be no higher than 20 percent. Where the right of site use is considered the investment of the Chinese joint venturer, no adjustment will be made within the effective contractual period; where a prepayment is made for a certain number of years, there will be no adjustment during those years.

4. Wage. The state promulgated "Regulations on the Labor Management of Chinese-Foreign Joint Ventures" on the wages to be paid by the joint ventures. Within the limits of China's laws and according to the labor contract, the joint ventures enjoy the right of self-determination in regard to their staff and workers. In this respect, Shanghai also plans to further clarify the right of self-determination of the joint ventures.

In regard to wages, we heard some foreign firms say that the wages paid to the workers by the joint ventures average 200 plus yuan per capita per month, but the workers do not actually receive that much and the difference is pocketed by the Chinese government. This is a misunderstanding. The remuneration paid by the joint ventures to the workers consists of four parts: (1) The wages and bonuses paid directly to the workers should, in principle, be 20 percent or more higher than those paid to workers of state industries doing the same type of work. The specific amounts are to be considered in drafting the labor contract. The reason is because the workers of joint ventures have to undergo evaluation and selection before employment, go through probation before becoming regular employees and possess higher skills and labor productivity, and are subject to dismissal if their skills fail to satisfy the need of the employer. Therefore, their wages have to be higher than those doing the same type of work in state industries. The wage and bonus systems are to be decided by the joint ventures themselves. (2) A certain percentage of the wages is deducted for the workers' medical and welfare expenses of a constant



nature and for sickness, injury, childbirth and vacation. (3) A certain percentage is deducted to provide for withdrawal from job and retirement and turned over monthly to the departments in charge. (4) The final part is to reimburse the state for the various subsidies paid to the workers. As everyone knows, all our domestic enterprises currently follow the low wage policy, and low wages call for low commodity prices. Therefore, the state, in fact, pays rather large subsidies for the grain, edible oil, meat, fowl and eggs and vegetables needed by the workers and for their rents. It is only fair and reasonable for the state to be reimbursed by the joint ventures. The specific proportions of the last three parts are being formulated by the departments concerned. However, when judged by the already established joint ventures, the labor remuneration paid Chinese workers is still low.

5. Depreciation. The rate of depreciation is directly linked with the gain of the joint ventures and the profit distributed to the investors, and depreciation is also an important source of "cash inflow." Therefore, overseas investors pay serious attention to the issue. The computation of depreciation is clearly stipulated in the "Rules of Enforcement of the Income Tax Law of Chinese-Foreign Joint Ventures." In computing depreciation, we must first estimate the remaining value, which is, in principle, 10 percent of the original cost. Usually the straight line method is used. The shortest terms of depreciation are 20 years for houses and buildings, 10 years for trains, steamships, machine equipment and other production tools, and 5 years for electronic equipment and transportation tools other than trains and steamships. Compared with other countries, our terms of depreciation are not long. However, in view of the development of science and the accelerating obsolescence of technology and for the purpose of gaining a foothold in competition and speeding up technological transformation and equipment renewal, it is a common international practice for the joint ventures to ask for accelerated depreciation or changes in the methods of depreciation, which we also find feasible. But a procedure must be followed. Permission may be granted upon application by the joint ventures and approval by the tax organs.

6. Supply of Raw and Processed Materials and Marketing of Products. The joint ventures may decide whether to purchase the raw and processed materials needed by them in China or abroad. Where the domestic purchases belong in the category of resources under planned distribution (including fuel and power), as long as they are included in the plans, their supply is guaranteed. Other resources may be purchased from the units handling them, and the joint ventures are granted preferential treatment in supply. The joint ventures must pay the international market price in renminbi for gold, silver, platinum, coal, oil and lumber, the few items of resources, as required by the State Council, but they may pay the domestic price in renminbi for other items. Where the items needed are export or import resources under the unified handling of the foreign trade branch, they may be purchased from the branch and paid for in foreign exchange according to the international market price.



In regard to their products, besides the portion which, according to contract, should be marketed abroad by the foreign investors, the joint ventures are encouraged to sell them in the international market. Where the same products are also produced in China and exported, the prices of the products marketed by the joint ventures abroad should be coordinated and balanced by the foreign trade branch; the joint ventures may set the prices on the rest. Meanwhile, we also plan to yield a part of the domestic market and permit the joint ventures to sell some of their products in China. The prices for domestic sales should be determined by referring to the current prices of identical domestic products and according to the quality, and they should be paid in renminbi. By agreement of the supplying and demanding sides, the prices of some products may be set by referring to the international market price and paid for in renminbi. Where products are sold through the foreign trade branch to other domestic units needing import, the prices may be set by referring to the international market price and paid for in foreign exchange.

Currently, some foreign trade units are too elaborate in their procedures for permits to import raw material and export products and impractical in coordinating the prices of export commodities, thereby affecting the normal operation of the joint ventures. We are actively making suggestions to improve the work methods and procedures. The arbitrary pricing of supplies to the joint ventures by some units is incompatible with the regulations and must be rectified by the government.

7. Expansion of Production and Operation. In case of shortage of funds, whether for additional fixed assets or for circulation, whether in renminbi or in foreign exchange, the joint ventures may borrow from the Bank of China, at the same rate of interest as charged to domestic enterprises. As the interest of Chinese bank loans is much lower than the commercial interest rate in the international money market, it actually constitutes a preferential rate to the joint ventures. In addition, to expand international economic and technological interchanges, the Shanghai branch of the Bank of China also plans to start issuing export credit. It will take the common international practice as reference and charge a preferential rate of interest. The specific methods will be determined separately.

Shanghai will submit the above plans, in the form of local laws and regulations, to the central government for approval.

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Materials Management

AUTHOR: HUANG Jiansheng [7806 1696 3932]

ORG: Wuhan Transaction Station, China Container Company

TITLE: "Opinions Concerning the Development of Container Traffic in China"

SOURCE: Beijing WUZI GUANLI [MATERIALS MANAGEMENT] in Chinese No 3, 20 Mar 83 p 20

ABSTRACT: Container traffic is one of the marks of modernized transportation. It began more than 20 years ago but the development has been slow. According to Wuhan Supply Station of China Chemical Construction Company, without the use of containers, the loss of polyethylene amounts to 600 kg to one ton in every 50-ton truck, traveling from Guangzhou to Wuhan. The author suggests that the State's Transportation Ministry should issue regulations specifying the types of materials and products suitable for containers. The producers should provide containers for polluting materials. Dangerous materials should be clearly labeled on the container. There should be many types of containers but all should be standardized, and container rental enterprises should be developed for those industries unwilling to own containers themselves.

AUTHOR: RAN Jian [0373 4675]

ORG: Bureau of Fuels, National Bureau of Materials

TITLE: "Higher Price for Over-consumption of Fuel Promotes Savings and Production Increase of Enterprises"

SOURCE: Beijing WUZI GUANLI [MATERIALS MANAGEMENT] in Chinese No 3, 20 Mar 83 p 26

ABSTRACT: After the Jinan Municipal Fuel Company of Shandong Province carried out the rule of charging higher price for over consumption of fuel, as required by the State's Planning and Economic Committees, the production of the west plant of Shandong Paper-making Plant has increased and the coal consumption has been obviously reduced. The plant had consumed 31,000 tons of coal a year and no one was assigned to take charge of the coal and there was no measurement of the steam. There were many small boilers and more than 260 places leaked steam. The charcoal content of the coal cinder was as high as 35 percent. In the first half year of 1981, the plant used 3,270 tons of coal above its quota and the fuel company began to charge it a higher price in the autumn. Immediately, an energy conservation group was established by the plant to start repairing the leaks, to adopt management, award, and penalty systems, and to eliminate small steam pots and bath tubs. Boilers and work processes were reformed. By Jan-Oct 82, production increased 16.6 and the coal consumption dropped 16.2 percent.

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